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Financial Analysis and Performance of Tata Motors Pvt Ltd

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ABSTRACT

Tata Motors is facing challenges in maintaining its market position and profitability in the highly competitive global automotive industry, amidst changing consumer preferences, increasing regulatory pressures, and rapid technological advancements. The company needs to find ways to innovate, differentiate, and optimize its products, operations, and distribution channels to stay ahead of the curve and create sustainable value for its stakeholders.

INTRODUCTION OF THE STUDY

Financial analysis is the process of examining a company's performance in the context of its industry and economic environment in order to arrive at a decision or recommendation. Often, the decisions and recommendations addressed by financial analysts pertain to providing capital to companies specifically, whether to invest in the company's debt or equity securities and at what price. An investor in debt securities is concerned about the company's ability to pay interest and to repay the principal lent. An investor in equity securities is an owner with a residual interest in the company and is concerned about the company's ability to pay dividends and the likelihood that its share price will increase.

Investors and financial analysts rely on financial data to analyze the performance of a company and make predictions about the future direction of the company's stock price. One of the most important resoures of reliable and audited financial data is the annual report which contains the firm's financial statements.

SCOPE OF THE STUDY:

- This study will help the firm in making financial statements for future years.
- This study is purely from the financial point of view and not from the worker's point of view.
- It helps in making some reference for its past performance.

STATEMENT OF PROBLEM:

Tata Motors is one of the leading automotive companies in India and a significant player in the global market. Despite its strong brand reputation, the company has faced challenges in recent years, including declining profitability, high debt levels, and intense competition in the industry. Therefore, there is a need to conduct a comprehensive financial analysis of Tata Motors to identify the key factors affecting its financial performance and to provide insights into its financial health. The study will focus on analyzing the company's financial statements, including balance sheet, income statement, and cash flow statement, as well as key financial ratios, to assess its liquidity, profitability, efficiency, and solvency. The research will also compare Tata Motors' financial performance with its competitors in the industry to identify potential areas for improvement and growth.

OBJECTIVES:

- The analysis of the financial statement of TATA Motors Company is an attempt to evaluate the efficiency and performance of the company.
- The financial performance of the company is known by calculating financial statements and ratios.
- To know an idea about the financial statement of the industry.
- To have a view of the company's efficiency.

LIMITATION OF THE STUDY:

- The analysis is only based on a comparative balance sheet and profit and loss account.
- The study is based on secondary data so there may be approximations.
- The study is based only on financial analysis; it does cover the activities undertaken in the Tata motors.

RESEARCH METHODOLOGY:

Research, particularly in social journals, contains endless word spinning and too Many quotations. The end result though may be far from expectations. In the context of planning and development it is to be noted that it significantly lies in quality rather than quantity.

METHOD OF DATA COLLECTION:

Data collection is a process of gathering information from all the relevant sources to find a solution to the research problem. It helps to evaluate the outcome of the problem. The data collection methods allow a person to conclude an answer to the relevant question. Most of the organizations use data collection methods to make assumptions about future probabilities and trends. Once the data is collected, it is necessary to undergo the data organization process.

Depending on the type of data, the data collection method is divided into two categories namely,

• Primary Data

• Secondary Data

RESEARCH DESIGN:

The design of the study is analytical. It is the procedure of condition and analysis of data in a manner that aims to combine reference to the research purpose. The research is conducted within the conceptual structure.

DATA USED

• Secondary Data is used for this study

STATISTICAL TOOLS:

- RATIO ANALYSIS
- COMPARATIVE BALANCE SHEET
- TREND ANALYSIS

REVIEW OF LITERATURE:

Kumar Neeraj & Kaur Kuldip (2016) made an attempt to test the size and profitability relationship in the Indian automobile industry. To analyze the relationship linear regression model as well as cross- sectional has been employed for the year 1998 to 2014.

For profitability analysis two different measures have been used

(i) ratio of net profit to total sales turnover

(ii) ratio of net income to net assets plus working capital and for form size two indicators used namely, total sales turnover and net assets. The time series analysis showed the positive relationship between firm size and profitability but cross sectional shows no relationship between firm size and profitability.

Ravichandran, M. &Subramaniam M Venkata (2016) the main idea behind this study is to assess the viability, stability and profitability of Force motors limited. Operating position of the company can be measured by using various financial tools such as profitability ratio, solvency ratio, comparative statement & graphs etc. This study finds that the company has got enough funds to meet its debts & liabilities. Companies can further improve financial performance by reducing the administrative, selling and operating expenses.

DATA ANALYSIS AND INTERPRETATION:

Current Ratio:

The Current ratio is also known as working capital ratio or banker's ratio. It expresses the relationship of a current asset to current liabilities.

Current Ratio = Current Assets

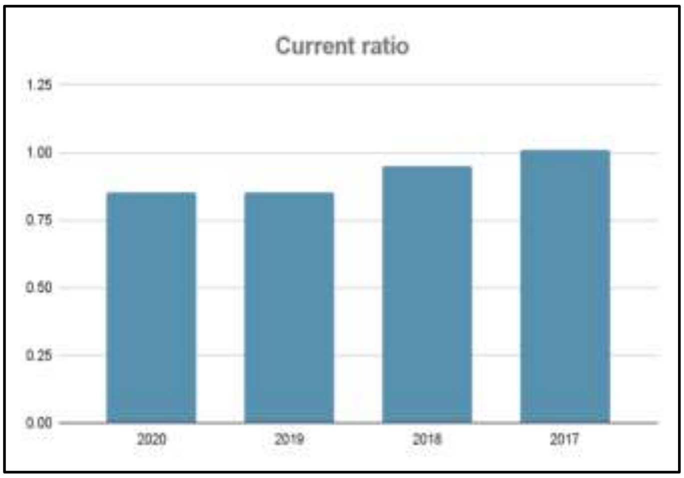
/ Current Liability

FINANCIAL YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATI O
2020	1,195,83 5,700	1,397,39 8,500	0.85
2019	1,22,82, 75,200	1,44,77, 50,600	0.85
2018	1,36,26, 48,300	1,42,77, 82,700	0.95
2017	1,16,33, 36,400	1,15,28, 86,200	1.01

INTERPRETATION

The current ratio is a financial metric that measures a company's ability to pay off its short-term obligations using its current assets. A ratio of 1 or higher indicates that the company has enough current assets to pay off its current liabilities, while a ratio below 1 indicates that the company may have difficulty meeting its short-term obligations.

Based on the table, we can see that the current ratio for the company has been consistently below 1 for the past three years (2019, 2020, and 2021), which means that the company may have difficulties in paying off its short-term obligations using its current assets. In 2018, the company had a current ratio of 0.95, which is slightly below 1 but still indicates that the company has enough current assets to meet its short-term liabilities.



Inventory Turnover Ratio:

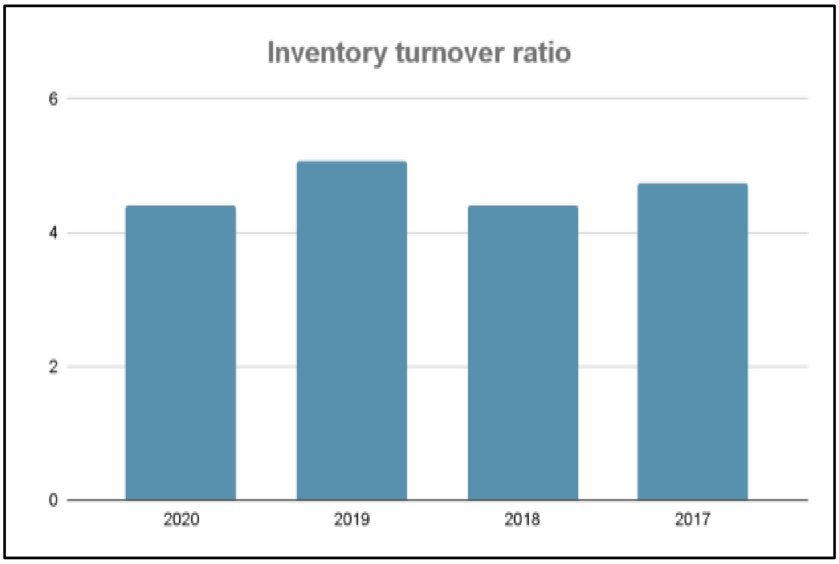
This ratio indicates how easily inventory is sold, restocked, or turned over during the year. The inventory turnover ratio helps to see if the company is running out of stock or has obsolete inventory.

Financial year	COGS	Inventory	Inventory turnover Ratio
2020	1,65,19,70,900	37,45,27,800	4.41
2019	1,97,88,55,800	39,00,15,900	5.07
2018	1,86,96,82,900	42,42,96,200	4.4
2017	1,67,08,95,400	35,29,53,800	4.73

Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

INTERPRETATION

The table provided shows financial data for a company over four years, specifically regarding its Cost of Goods Sold (COGS), Inventory, and Inventory Turnover Ratio."Overall, based on the information in the table, we can see that the company's COGS and inventory have generally increased over the four years, while its inventory turnover ratio has remained relatively consistent. Further analysis would be needed to fully understand the implications of these trends on the company's financial health.



MAJOR FINDINGS:

- The current ratio is a financial metric that measures a company's ability to pay off its short-term obligations using its current assets.
- The Quick Ratio has been declining over the years, which indicates that the company's liquidity position has been deteriorating.
- The "Total End Cash" column represents the total amount of cash the company had at the end of each year, while the "Current Liabilities" column represents the total value of debts and other obligations that the company must pay in the near future.
- The profit margins for these years were 2.31% and 2.30%, respectively.

SUGGESTIONS

An increase in the working capital turnover (WCT) ratio to 3.19 in 2021-22 indicates that the company has improved its efficiency in using its working capital to generate sales. A higher WCT ratio means that the company is generating more sales for each dollar of working capital invested. This could be due to better inventory management, which means that the company is holding less inventory, which frees up cash that can be invested in other areas of the business.

While the company's debt-asset ratio is favorable, it's important to also consider other financial ratios and factors to gain a comprehensive understanding of the company's financial health. For example, analyzing the company's cash flow statement could provide insight into the company's ability to generate cash and manage its working capital.

CONCLUSION

Based on the financial analysis presented above, TATA appears to have a stable financial position with consistent operating margins and gross profit ratios. The net profit margin ratio has fluctuated over the years, but the company has earned a significant profit per share in recent years. The net profit ratio has also been consistently high, indicating that investors are willing to pay a premium for TATA's earnings.

However, the company has faced some challenges with its debt-asset ratio and interest coverage ratio. While the debt-asset ratio has been relatively low, the company's high level of debt could pose a risk during economic downturns. The interest coverage ratio has fluctuated over the years, potentially making it more difficult for the company to raise additional debt financing in the future.

Looking ahead, the analysis predicts significant growth in net sales for the year 2026-27, which could be due to TATA's continued efforts to expand its business and explore new markets. The company's operating profitability is expected to fluctuate over the next five years, potentially due to changes in market conditions and competition.

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