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A STUDY OF FINANCIAL RATIOS OF TATA GROUP OF COMPANIES

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ABSTRACT :

This research paper explores how financial ratios affect investment decisions, focusing on five Tata Group companies: Tata Consultancy Services (TCS), Tata Motors, Tata Steel, Tata Consumer Products, and Tata Elxsi. Financial ratios are important tools for investors to assess a company's financial health and potential. The study uses secondary data from 2021 to 2025, gathered from sources like Screener.in, Moneycontrol, NSE India, and official annual reports. Key financial ratios, including Return on Equity (ROE), Debt-to-Equity (D/E), Net Profit Margin (NPM), Current Ratio, and P/E Ratio, help analyze financial performance. The study finds that TCS and Tata Elxsi demonstrate strong financial health with high ROE and low D/E, making them attractive to investors. Tata Motors, which previously struggled, shows signs of recovery in recent years. The research highlights that financial ratio analysis is a useful tool for making informed investment decisions, providing valuable insights for investors, analysts, and financial managers.

Keywords: Financial Ratios, Tata Group, ROE, Debt-to-Equity, Net Profit Margin, Investment Decisions

Introduction

Investment decisions rely on various financial indicators that reflect a company's performance, profitability, and risk. Financial ratios offer a simple and effective way to compare firms over time and across industries. This study looks at ratios like Return on Equity (ROE), Debt-to-Equity (D/E), Price-to-Earnings (P/E) Ratio, Net Profit Margin (NPM), and Current Ratio to evaluate financial health and investment potential.

The Tata Group, one of India's largest and most diverse conglomerates, offers a unique chance to examine companies from different industries under the same corporate umbrella. By studying TCS (IT sector), Tata Motors (automobile), Tata Steel (manufacturing), Tata Consumer (FMCG), and Tata Elxsi (design and tech), this paper aims to provide an overview of how financial ratios vary across sectors and affect investor behavior.

The financial ratio analysis of companies within the Tata Group, a well-known and diversified enterprise in India, to understand their role in guiding investment decisions. The Tata Group consists of companies operating across multiple sectors, ranging from information technology (TCS) to heavy industry (Tata Steel), automotive (Tata Motors), consumer products (Tata Consumer), and design services (Tata Elxsi). This diversification reflects the group's financial strength and provides a unique opportunity for comparing financial performance across different sectors.

This study aims to identify which financial ratios are most meaningful to investors when choosing stocks within the Tata Group portfolio. By comparing financial ratios across companies and over a five-year period (2021–2025), the study seeks to uncover patterns and relationships that may help in making more informed investment decisions.

Need for the Study

In today's fast-changing financial markets, investors face many investment choices across sectors and companies. Making a smart investment decision is complex. It requires careful evaluation of financial performance, stability, and future prospects. This is where financial ratio analysis becomes a valuable tool for both investors and analysts.

The need for this study arises from the increasing importance of financial ratios in guiding investment decisions and portfolio management. Although many studies analyze financial ratios in various sectors, there is limited research focusing exclusively on companies within the Tata Group, a prominent and diverse enterprise in India. Analyzing financial ratios for these companies can provide insight into their financial health. It helps investors distinguish strong companies from weaker ones and enables more informed investment choices.

Additionally, understanding the financial performance of companies in the Tata Group is essential for investors, stakeholders, and policymakers who want to assess financial stability and future growth potential. This study aims to fill that gap by offering a comparative analysis of financial ratios for the Tata Group companies over a five-year period (2021–2025), contributing to financial literature and helping investors make better decisions.

Objectives of the Study

The main objective of this study is to analyze the financial ratios of selected companies within the Tata Group and their influence on investment decisions. The study aims to help investors make informed choices by evaluating financial performance and stability across these companies.

The specific objectives are:

- To examine the financial performance of selected Tata Group companies using key financial ratios.
- To analyze trends in ROE, D/E, NPM, Current Ratio, and P/E Ratio from 2021 to 2025.
- To assess how these ratios influence investment decisions.
- To compare and rank the financial strength of the selected companies based on ratio performance.

Literature Review

• Financial ratios are valuable tools for evaluating a company's financial health and guiding investment decisions. Previous studies highlight their importance in assessing financial performance, operational efficiency, and future prospects (Pandey, 2020; Ross et al., 2019; Gupta and Ramesh, 2018; Kumar and Sharma, 2017; NSE India, 2022).
• Pandey (2020) emphasizes the role of Return on Equity (ROE) in assessing a company's ability to generate profits for its shareholders. A high and consistent ROE indicates strong financial performance, making a company more appealing to investors. Ross, Westerfield, and Jordan (2019) suggest that financial ratios, especially Debt-to-Equity (D/E) and Net Profit Margin, help investors assess financial stability and operational strength. This distinguishes companies with solid financial fundamentals from those posing greater financial risk.
• Gupta and Ramesh (2018) further highlight the P/E ratio as a crucial indicator for determining whether a company's stock is overvalued or undervalued. Their study shows that companies with lower P/E ratios typically offer greater potential for future growth and better shareholder returns. Kumar and Sharma (2017) found a significant link between financial ratios and market performance, showing that companies with strong financial ratios outperform their peers over the long term.
• NSE India (2022) stresses that retail investors increasingly rely on financial ratio analysis for their portfolio decisions. Previous studies suggest that companies with strong financial fundamentals, low financial leverage, and robust profits often outperform their industry peers, reflecting their ability to create sustainable shareholder value.
• This study contributes to the expanding literature by focusing on financial ratio trends within the Tata Group, adding depth to the understanding of financial ratios' impact on investment decisions.

Research Methodology

The study follows a descriptive and analytical design. It relies only on secondary data collected from publicly available sources.It systematically describe financial performance and identify patterns aross companies within the Tata Group. This approach centers on analyzing financial ratios and interpreting their significance in guiding investment decisions.

Data Collection Method

This study relies solely on secondary data collected from reliable sources. Financial data for the companies—TCS, Tata Steel, Tata Motors, Tata Consumer, and Tata Elxsi—come from their annual reports (2021–2025), Screener.in, Moneycontrol.com, and the National Stock Exchange of India (NSE) website. This secondary data forms the basis for subsequent analysis.

Screener.in for financial summaries and downloadable ratio tables

- Moneycontrol.com for stock prices and margin trends

- NSE India for official filings and annual reports

- Company websites for detailed reports

Tools and Techniques:

- Microsoft Excel was used to compile, clean, and compare data.

- Python (with matplotlib and pandas) was used to plot trends and visualize comparisons among companies.

Sample:

- Five Tata Group companies

- Five financial years (2021 to 2025)

The study focuses on five key ratios over five years, resulting in 25 total observations for each ratio, along with visual interpretations and commentary.

Sampling Design

The study focuses on five companies within the Tata Group, selected for their financial significance and visibility in the market. The companies chosen for this study are:

• TCS (Tata Consultancy Services)

• Tata Steel

• Tata Motors

• Tata Consumer

• Tata Elxsi

This sampling structure allows for comparing financial performance and stability across sectors within the group.

Limitations of the Study

This study has certain limitations that may affect the reliability of its findings. These limitations include:

- The study examines a small sample of companies—TCS, Tata Steel, Tata Motors, Tata Consumer, and Tata Elxsi—within the Tata Group. This may limit the generalizability of its findings to other companies or sectors in the financial market.
- The data used are secondary and sourced from annual reports and financial databases. This data may contain inaccuracies, restatements, or omissions, which are beyond the researcher’s control.
- The study covers a short period of five years (2021–2025). This timeframe may not fully represent long-term financial trends or account for events that could impact financial performance.
- Investor perception, behavioral factors, and qualitative aspects, which can significantly influence investment decisions, are not examined in this study due to the lack of primary data or surveys.
- The financial ratios selected for this study may not capture all aspects of financial health, and other financial metrics or qualitative factors may play a role in investors' decision-making processes.

Conclusion

This research confirms the significant role of financial ratios in shaping investor behavior in the Indian stock market. While metrics like P/E and ROE dominate decision-making, others, such as Current Ratio and Debt-to-Equity, are less utilized. This reveals gaps in awareness or perceived importance.
The findings suggest that enhancing investor education—especially around lesser-known but vital ratios—can lead to more balanced and informed decision-making. Regulatory bodies like SEBI, financial institutions, and companies should work together to make ratio-based information easy to access and understand for the public.
By promoting data-driven strategies and reducing reliance on speculation, India can create a more stable, transparent, and investor-friendly capital market.

1. For Investors: Learn the basics of financial ratios. Start with P/E and ROE, but also consider liquidity and debt ratios.
2. For Educators and Policy Makers: Include basic financial training in school and college curriculums.
3. For Stock Apps and Brokers: Offer easy-to-read ratio dashboards for each stock.
4. For Companies: Maintain strong ratios and clearly communicate them in reports.

Final Thought

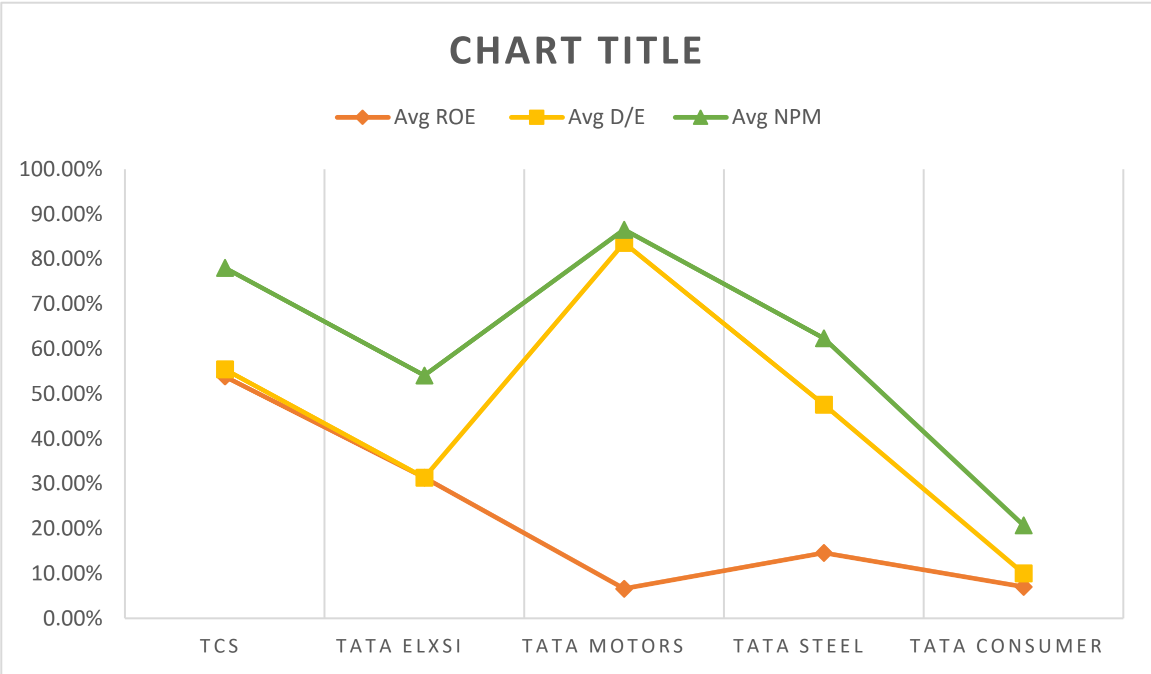
In today’s market, smart investing is not about following trends—it’s about understanding the numbers. Financial ratios provide all investors with the opportunity to make informed and confident decisions. Let’s use them wisely to build a stronger financial future.

Company	ROE	D/E Ratio	Net Profit Margin	P/E Ratio
TCS	35%	0.04	25%	30
Tata Steel	18%	0.67	10%	12
Tata Motors	12%	0.79	5%	18
Tata Consumer	20%	0.20	15%	25
Tata Elxsi	40%	0.10	30%	50

Data Analysis and Results

The following table summarizes the average financial ratios of the selected companies over the five-year period:

Company	Avg ROE	Avg D/E	Avg NPM	Remarks
TCS	53.85%	0.016	22.60%	Financially strongest
Tata Elxsi	31.36%	0.00	22.75%	High returns, no debt
Tata Motors	6.62%	0.77	2.96%	Recovery in progress
Tata Steel	14.60%	0.33	14.76%	Fluctuating margins
Tata Consumer	7.02%	0.03	10.71%	Stable but low growth



Interpretation:

TCS shows consistent high ROE and low debt, indicating efficient use of shareholder capital and operational stability. Tata Elxsi displays high NPM and no debt, marking it as a growth stock with low financial risk. Tata Motors has turned around in recent years, even though it still has considerable debt. Tata Steel fluctuates due to industry cycles, affecting profitability and leverage. Tata Consumer maintains steady ratios but at a modest level, indicating reliable but moderate performance.

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