# EXPERIMENT NO 1

# Case study on IT Project Financial Management

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## Case study:  TATA motors

Some of the Company's financing agreements and debt arrangements set limits on and/or require prior lender consent for, among other things, undertaking new projects, issuing new securities, changes in management, mergers, sales of undertakings and investment in subsidiaries. In addition, certain negative covenants may limit the Company's ability to borrow additional funds or to incur additional liens, and/or provide for increased costs in case of breach. Certain of the Company's financing arrangements also include financial covenants to maintain certain debt- to-equity ratios, debt-to-earnings ratios, liquidity ratios, capital expenditure ratios and debt coverage ratios.

The Company monitors compliance with its financial covenants on an ongoing basis. The Company also reviews its refinancing strategy and continues to plan for deployment of long-term funds to address any potential non-compliance.

As at March 31, 2019, GB£262 million of cash was held by Jaguar Land Rover subsidiaries outside of the UK. The cash in some of these jurisdictions is subject to certain restrictions on cash pooling, intercompany loan arrangements or interim dividends. However, annual dividends are generally permitted and JLR do not believe that these restrictions have, or are expected to have, any impact on Jaguar Land Rover's ability to meet its cash obligations.

Certain debt issued by Jaguar Land Rover is subject to customary covenants and events of default, which include, among other things, restrictions or limitations on the amount of cash, which may be transferred outside the Jaguar Land Rover group of companies in the form of dividends, loans or investments to the Company and its subsidiaries. These are referred to as restricted payments in the relevant Jaguar Land Rover financing documentation. In general, the amount of cash which may be transferred as restricted payments from the Jaguar Land Rover group to the Company and its subsidiaries is limited to 50% of its cumulative consolidated net income (as defined in the relevant financing documentation) from January 2011. As at March 31, 2019, the estimated amount that is available for dividend payments, other distributions and restricted payments was approximately GB£4,315 million.

### FINANCIAL PERFORMANCE ON A STANDALONE BASIS

The financial information discussed in this section is derived from the Company's Audited Standalone Financial Statements. These include the Company's proportionate share of income and expenditure in its two Joint Operations, namely Tata Cummins Pvt Ltd and Fiat India Automobiles Pvt Ltd.

| | FY 2018-19 (%) | FY 2017-18 (%) |
|---|---|---|
| Income from operations (net of excise duty) | 100 | 100 |
| Expenditure: | | |
| Cost of material consumed (including change in stock) | 73.1 | 72.7 |
| Excise Duty | -- | 1.4 |
| Employee cost | 6.2 | 6.8 |
| Product development/Engineering expenses | 0.8 | 0.8 |
| Other expenses (net) | 14.0 | 15.7 |
| Amount capitalised | (1.6) | (1.5) |
| Profit before other income, depreciation and amortisation, finance costs, foreign exchange loss, exceptional items and tax | 7.5 | 4.1 |
| Other income | 3.7 | 4.2 |
| Profit before depreciation and amortisation, finance costs, foreign exchange loss, exceptional items and tax | 11.2 | 8.3 |
| Depreciation and amortisation | 4.5 | 5.3 |
| Finance costs | 2.6 | 3.0 |
| Foreign exchange (gain)/loss | 0.3 | 0.0 |
| Exceptional items – loss | 0.3 | 1.6 |
| Profit/(loss) before tax | 3.5 | (1.6) |
| Tax expenses | 0.6 | 0.2 |
| Profit/(loss) after tax | 2.9 | (1.8) |

FY 2018-19 has been a good year for the Company, followed a period of high demand in the automotive sector in India.

Income from operations of the Company for FY 2018-19, stood at Rs.69,202.76 crores as compared to Rs.58,689.81 crores, an increase of 17.9%. Sale of vehicles stood at Rs.61,357.95 crores as compared to Rs.52,636.85 crores, an increase of 16.6%. Total number of vehicles sold were 732,428 units in FY 2018-19, as compared to 636,968 units in FY 2017-18, a growth of 15%. Sale of spare parts & miscellaneous products stood at Rs.6,965.74 crores as compared to Rs.5,231.19 crores, an increase of 33.2%.

FY 2018-19, was the first full year of benefits of the strategic Organization Effectiveness (OE) program, designed to overhaul and transform the organizational structure of the company. As a result of the OE program, the company has drawn separate strategies for commercial vehicles and passenger vehicles from FY 2018-19.

Consequent to these changes, from April 1, 2018, the operating segments of the Company are as follows as at March 31, 2019 and 2018:

(₹ in crores)

| | FY 2018-19 | | FY 2017-18 | |
|---|---|---|---|---|
| | Revenue | Earnings before Interest and Tax (EBIT) | Revenue | Earnings before Interest and Tax (EBIT) |
| Commercial vehicles | 54,036.54 | 4,423.50 | 44,875.54 | 3,474.29 |
| Passenger vehicles | 15,052.30 | (1,396.08) | 13,644.58 | (2,985.13) |
| Corporate/ Unallocable | 113.92 | (349.92) | 169.69 | (265.45) |

Cost of materials consumed (including change in stock)

| | FY 2018-19 | FY 2017-18 |
|---|---|---|
| | (₹ in crores) | |
| Consumption of raw materials and components | 43,748.77 | 37,080.45 |
| Purchase of product for sale | 6,722.32 | 4,762.41 |
| Change in inventories of finished goods, Work-in-progress and products for sale | 144.69 | 842.05 |
| Total | **50,615.78** | **42,684.91** |

Cost of material consumed increased from 72.7% of total revenue to 73.1% in FY 2018-19, representing an increase of 40 bps, mainly due to product mix.

**Excise duty** Consequent to the introduction of Goods and Service Tax (GST) with effect from July 1, 2017, Central Excise, Value Added Tax (VAT) etc. have been replaced by GST. Excise duty for FY 2017-18 was Rs.793.28 crores.

**Employee Costs were** Rs.4,273.10 crores in FY 2018-19 as compared to Rs.3,966.73 crores in FY 2017-18, an increase by 7.7%, mainly due to higher volumes, annual increments, higher bonus and performance payment provisions for FY 2018-19 and wage revisions at some plant locations. The number of employees in TML Standalone only were 27,572 as at March 31, 2019, as compared to 24,922 as at March 31, 2018. The Company has given share-based payments to certain employees, resulting in a charge of Rs.8.44 crores in FY 2018-19

**Other Expenses** includes all works operations, indirect manufacturing expenses, freight cost, fixed marketing costs and other administrative costs. These expenses have increased by 4.8% to Rs.9,680.46 crores in FY 2018-19 from Rs.9,234.27 crores in FY 2017-18. The breakdown is provided below:

| | FY 2018-19 | FY 2017-18 | Change |
|---|---|---|---|
| | | (₹ in crores) | |
| Processing charges | 1,567.89 | 1,240.88 | 327.01 |
| Consumption of stores & spare parts | 617.67 | 639.35 | (21.68) |
| Freight, transportation, port charges, etc. | 1,865.62 | 1,703.15 | 162.47 |
| Power and fuel | 598.62 | 545.12 | 53.50 |
| Warranty expenses | 999.47 | 766.18 | 233.29 |
| Information technology/ computer expenses | 714.17 | 711.95 | 2.22 |
| Publicity | 736.13 | 720.18 | 15.95 |
| Allowances made/(reversed) for trade and other receivables | 170.90 | (109.19) | 280.09 |
| Assets scrapped/written off | 230.28 | 995.47 | (765.19) |
| Works operation and other expenses | 2179.71 | 2,021.18 | 158.53 |
| Other Expenses | 9,680.46 | 9,234.27 | 446.19 |

The changes are mainly driven by volumes and the size of operations.

Freight, transportation, port charges etc., as a percentage to total revenue, were 2.7% in FY 2018-19, as compared to 2.9% in FY 2017-18. The increase in absolute amount is due to higher vehicle sales in FY 2018-19.

Publicity expenses represented 1.1% of total revenues in FY 2018-19 and 1.2% in FY 2017-18. In addition to routine product and brand campaigns, the Company incurred expenses relating to new product introduction campaigns for the Harrier etc.

Warranty expenses represented 1.4% and 1.3%, of the Company's revenues in FY 2018-19 and 2018, respectively. The increase was due to increased volumes of M&HCV. Further, the Company has increased product warranty period for certain vehicles from four years to six years effective from January 1, 2018.

Information technology/computer expenses represented 1% and 1.2% of the Company's revenues in FY 2018-19 and 2018, respectively.

Allowances made for trade and other receivables of Rs.170.90 crores in FY 2018-19, In FY 2018, there was a reversal due to favorable litigation orders.

Assets written off of Rs.230.28 crores in FY 2018-19, as compared to Rs.995.47 crores in FY 2017-18

Works operation and other expenses have decreased to 3.1% of net revenue in FY 2018-19 from 3.4% in FY 2017-18. The Company has run certain impact projects thereby reducing its fixed costs. In absolute terms the expenses increased by Rs.158.53 crores in FY 2018-19. The Company has subscribed to the Tata Brand Equity & Brand Promotion Agreement, for which the Company has to pay an annual subscription of 0.25% of the annual net income, subject to a ceiling of 5% of the annual profit before tax. In view of profits in FY 2018-19, there is an accrual for such fees.

Case Study Analysis

Q1 Specify the problem discussed in the Case Study?

Ans The case study discusses several aspects of the financial situation and performance of the company. While it doesn't explicitly state a problem, some potential challenges or considerations include:

Financial Covenants and Debt Arrangements: The company has various financing agreements and debt arrangements with limitations and covenants, including restrictions on new projects, issuance of new securities, and changes in management. There is a need to carefully manage these agreements to ensure compliance and plan for potential non-compliance.

Cash Holdings and Restrictions: As of March 31, 2019, a substantial amount of cash is held by Jaguar Land Rover subsidiaries outside the UK, subject to certain restrictions. The company needs to navigate these restrictions to ensure it can meet its cash obligations.

Debt-related Covenants and Restricted Payments: Certain debt issued by Jaguar Land Rover has covenants and events of default that restrict the amount of cash that can be transferred outside the group. This includes limitations on dividends, loans, or investments. The company needs to manage these restrictions while planning for dividend payments and other distributions.

Operational and Organizational Changes: The case mentions the implementation of the Organization Effectiveness (OE) program, resulting in separate strategies for commercial and passenger vehicles. The company needs to assess the impact of these changes on its overall performance and financial health.

Operational Expenses: The breakdown of other expenses highlights various factors affecting costs, including freight, publicity, warranty expenses, information technology expenses, allowances for receivables, and assets written off. Managing and optimizing these expenses is crucial for maintaining profitability.

Employee Costs: The increase in employee costs is attributed to higher volumes, annual increments, and other provisions. The company needs to carefully manage these costs while ensuring the well-being of its workforce.

In summary, the challenges or considerations involve financial compliance, managing cash across subsidiaries, navigating debt-related restrictions, optimizing operational expenses, and adapting to organizational changes. The specific "problem" would depend on the company's goals and priorities, and addressing these challenges effectively is crucial for sustainable financial performance.

Q2 What are the strategies and solutions explored in the case study?

Ans The case study provides insights into various strategies and solutions implemented by the company. Here are some key strategies and solutions discussed in the case:

Refinancing Strategy and Long-Term Funds Deployment: The company is actively monitoring compliance with financial covenants and reviewing its refinancing strategy. It plans for the deployment of long-term funds to address potential non-compliance with financing agreements and debt arrangements.

Cash Management Across Subsidiaries: Despite restrictions on cash pooling, intercompany loan arrangements, and interim dividends, the company believes that annual dividends are generally permitted. It emphasizes monitoring and managing cash held by Jaguar Land Rover subsidiaries outside the UK to ensure compliance with restrictions while meeting cash obligations.

Operational Overhaul through Organization Effectiveness (OE) Program: The implementation of the OE program has resulted in separate strategies for commercial vehicles and passenger vehicles. This organizational overhaul is aimed at improving effectiveness and efficiency in operations.

Segmentation of Operating Segments: The company has segmented its operating segments, particularly in light of the changes introduced by the OE program. The segmentation allows for a clearer understanding and management of performance in commercial vehicles and passenger vehicles.

Q3 What are the business outcomes discussed in the case study?

Ans The case study provides information on various business outcomes achieved by the company. Here are the key business outcomes discussed:

Financial Performance Improvement:

Income from operations for FY 2018-19 increased by 17.9% compared to the previous fiscal year.

Sales of vehicles showed a growth of 16.6%, with the total number of vehicles sold increasing by 15%.

Sale of spare parts and miscellaneous products increased by 33.2%.

Impact of Organization Effectiveness (OE) Program:

FY 2018-19 marked the first full year of benefits from the strategic OE program, designed to overhaul and transform the organizational structure.

The company drew separate strategies for commercial vehicles and passenger vehicles as a result of the OE program.

Segmentation of Operating Segments:

The company adjusted its operating segments to align with the changes introduced by the OE program, providing a clearer view of performance in commercial vehicles and passenger vehicles.

Cost Management and Product Mix:

The cost of materials consumed increased by 40 bps (basis points) to 73.1% of total revenue in FY 2018-19, mainly due to changes in product mix.

Impact projects were undertaken to reduce fixed costs.

Q4 What are the limitations mentioned in the case study?

Ans The case study does not explicitly mention specific limitations. However, by examining the information provided, some potential limitations or challenges can be inferred:

Debt Covenants and Restrictions:

The company has financing agreements and debt arrangements with limitations and covenants, potentially restricting its flexibility in decision-making, such as undertaking new projects or issuing new securities.

Cash Holding Restrictions:

Cash held by Jaguar Land Rover subsidiaries outside the UK is subject to certain restrictions on cash pooling, intercompany loan arrangements, or interim dividends. While annual dividends are generally permitted, there might be limitations on other cash management activities.

Debt-Related Covenants and Restricted Payments:

Certain debt issued by Jaguar Land Rover has covenants limiting the amount of cash that can be transferred outside the group. The restriction on restricted payments limits the transfer of cash, dividends, loans, or investments, posing potential constraints on capital allocation.

Operational Expenses:

Despite cost management efforts, various operational expenses have increased, such as freight costs and information technology expenses. Managing and controlling these costs may continue to be a challenge.

Employee Costs:

The increase in employee costs is mentioned as a percentage due to higher volumes, increments, bonuses, and performance payment provisions. Balancing the need for a capable workforce with cost control may pose ongoing challenges.

Q5 What are the key factors contributing to the increase in employee costs, and how does the company plan to manage this aspect moving forward?

Ans The increase in employee costs, as mentioned in the case study, is attributed to several factors, including higher volumes, annual increments, higher bonus and performance payment provisions for FY 2018-19, and wage revisions at some plant locations. The number of employees in TML Standalone increased from 24,922 as of March 31, 2018, to 27,572 as of March 31, 2019.

To manage this aspect moving forward, the company could consider implementing various strategies:

Operational Efficiency: Streamlining operational processes and improving efficiency can help control costs associated with a larger workforce. Implementing technology solutions and automation in certain areas can contribute to this goal.

Performance-Linked Compensation: Aligning compensation structures with performance metrics can help ensure that increased costs are justified by improved productivity and business performance. This approach can also motivate employees to contribute more to the company's success.

Strategic Workforce Planning: Assessing and optimizing workforce needs based on the company's strategic objectives can help in managing employee costs. This involves identifying essential roles, skill requirements, and potential areas for outsourcing or automation.

Training and Development Programs: Investing in employee training and development programs can enhance skills and productivity, contributing to better performance without significantly increasing headcount.