Tata Motors

Can the turnaround plan improve performance?

GEE - Case 3

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Introduction

This case study intends to provide a comprehensive analysis of Tata Motors by addressing five key questions.

1. Identify the main issues that Tata Motors was facing by examining the company’s financial performance and market position.
2. Explore the risks and opportunities for companies like Tata Motors based on the automobile industry reality of that time.
3. Evaluate the general trends in Tata Motors’ financial performance by analyzing the financial statements from the past five years.
4. Assess the economic and financial evolution of Tata Motors through profitability, efficiency, liquidity, and financial analyses, focusing on the company’s ability to generate profits and meet its liabilities.
5. Provide strategic recommendations to improve Tata Motors' financial position based on the financial and business analysis.

Q1 – Issues Tata Motors was facing

Accumulated losses

The company has faced losses over several years, peaking in the third quarter of fiscal 2019, undermining investor confidence and leading to a sharp drop in shares.

Declining market share

Tata Motors has seen its market share decline significantly in the passenger and commercial vehicle segments, losing ground to competitors such as Maruti Suzuki.

High cost structure

The chairman highlighted the high cost structure in passenger vehicles, resulting in losses across all models.

Q1 – Issues Tata Motors was facing

Slow response to market changes

The company is aware of its slugishness to adapt to market changes.

Unfavorable market conditions

Weak demand in several markets and challenges in China aggravated the financial problems.

New regulations

Adapting to the new emission standards imposed by governments required significant investments.

Q1 – Issues Tata Motors was facing

Increased R&D costs

Disruptive trends in the automotive industry, such as stricter emission standards and the transition to electric vehicles, resulted in higher research and development (R&D) expenses.

Governance issues

Questions raised about aggressive accounting practices and inadequate risk assessment.

Underutilization of capacity

Shift to modular platforms not used to their full potential, resulting in high fixed costs.

Q2 - Risks

- **Regulatory changes:**

Stricter emission standards, phasing out combustion engines.

- **Shift in consumer demand:**

More worried about environmental impacts, and motivated by tax incentives.

- **Increasing R&D costs:**

Mainly due to the changes in regulation, but also because of consumer preference.

- **Economic Downturns:**

The automobile industry could be negatively affected by several factors such as a slowdown in GDP, lower incomes, ...

- **Competitive pressure:**

There is a risk in all technological fields of quickly falling behind the competition and becoming irrelevant.

- **Legacy Costs:**

Shifting to newer technologies comes at the risk of investments in older technologies losing value.

Q2 – Opportunities

- **Government Initiatives:**

Tax incentives or subsidies for “cleaner” vehicles. India’s Automotive Mission Plan.

- **Expansion into Electric Vehicles:**

The predicted growing consumer demand for EVs also comes with an opportunity for innovation and expansion.

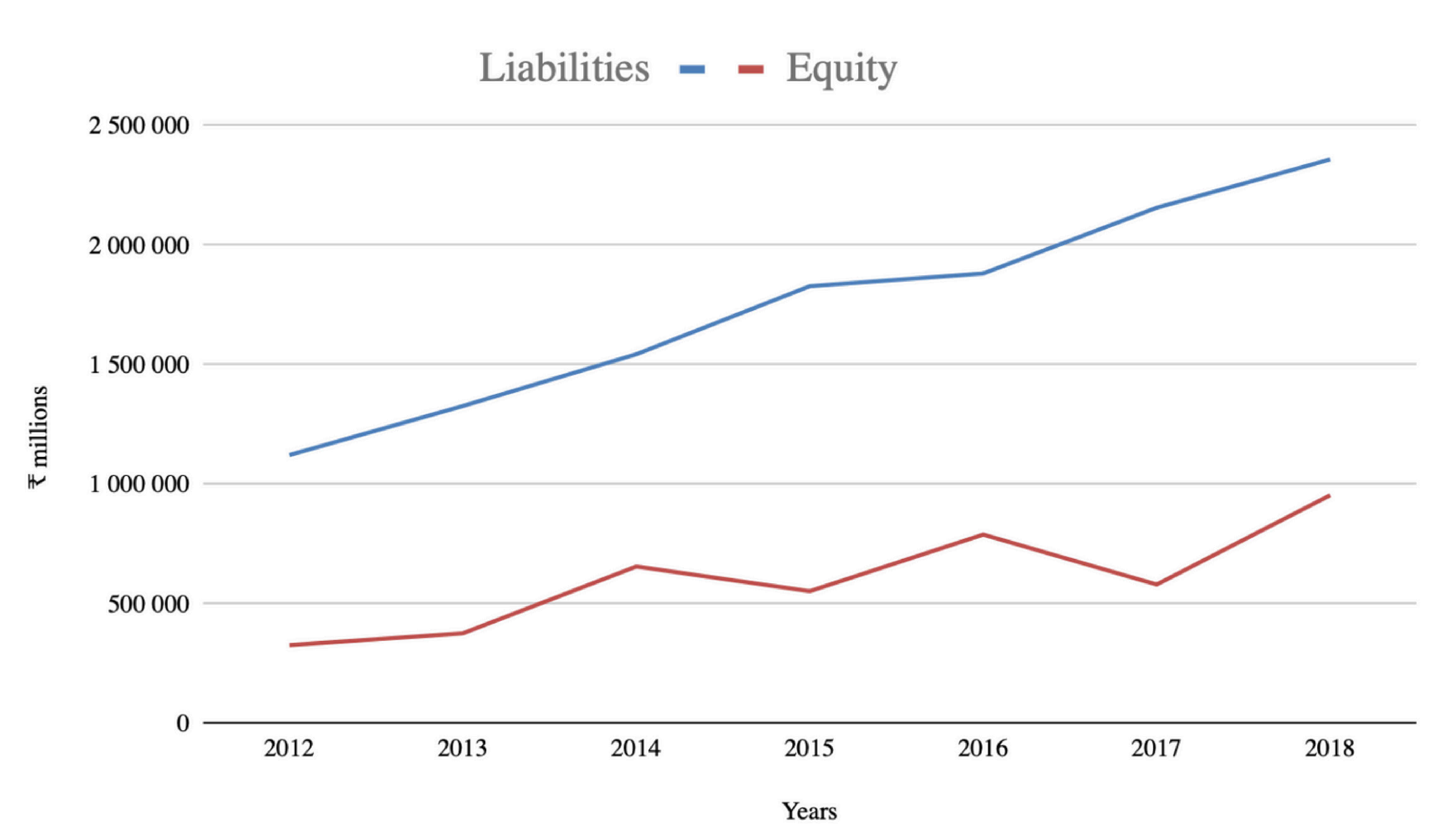
- **Rising Disposable Incomes:**

Economic growth and increasing disposable incomes in India could boost automobile sales.

- **Surpass competition:**

Quickly invest into the newer automotive technologies, to establish a name before the competitors.

Q3 – Financial Statements – Balance Sheet



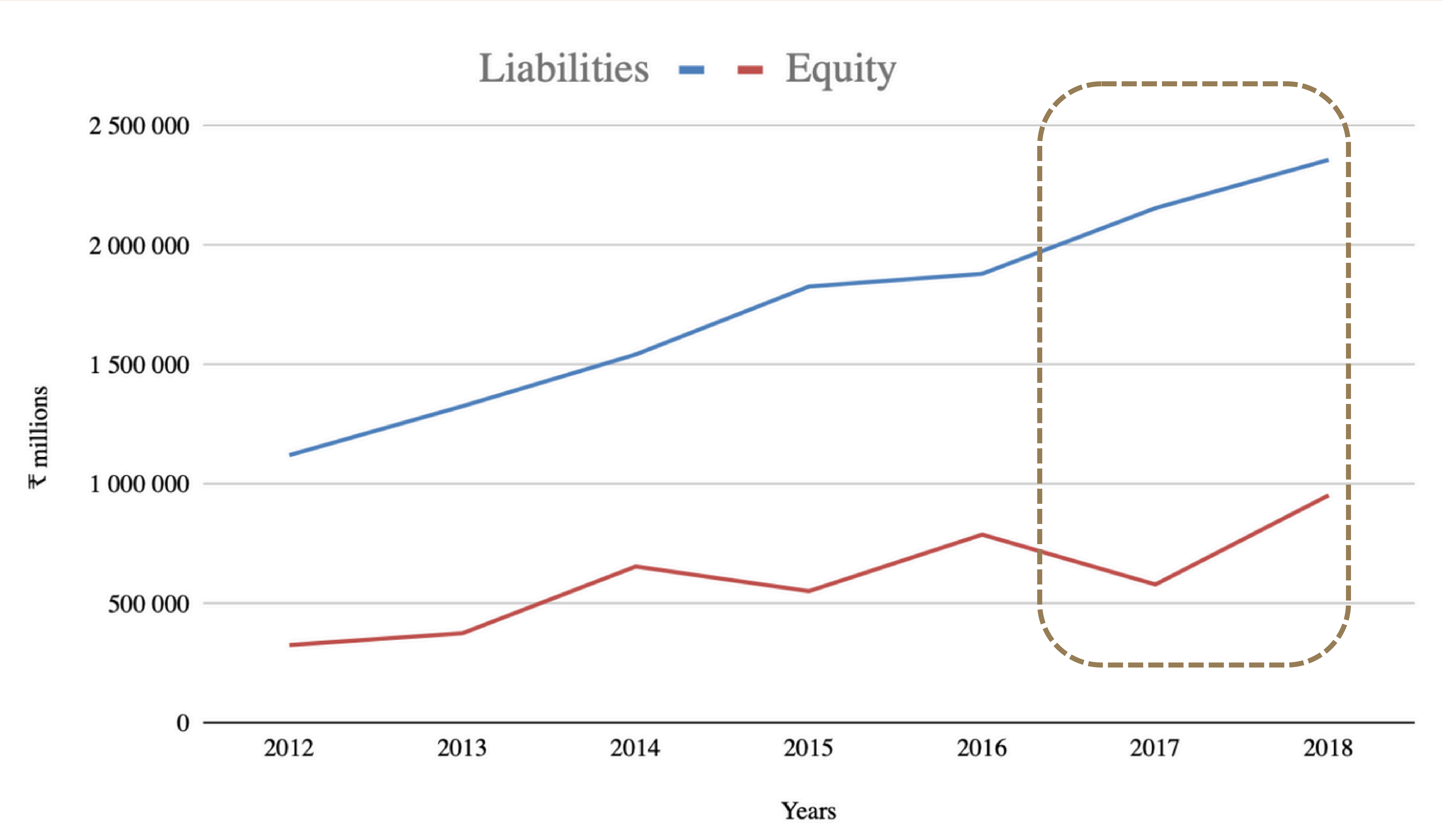
Assets =
Liabilities + Equity

Global Improvement

Liabilities grow

Equity has periods of decline

Q3 – Financial Statements – Balance Sheet



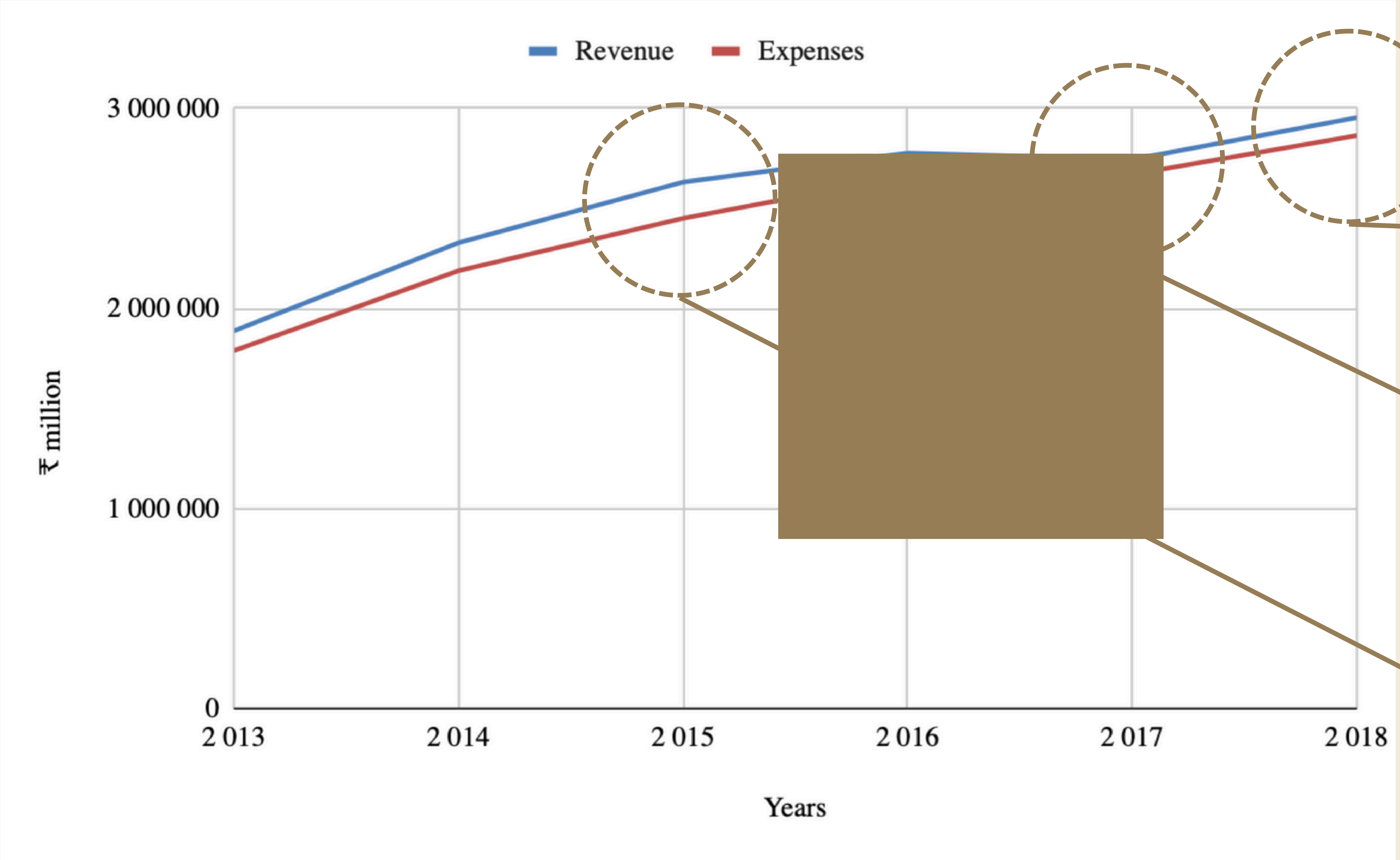
After the decline in 2017:

- **Drastic decrease in short-term investments**: part of the proposed cost reduction;

- **Property/Plant/Equipment**: proposed zero tolerance to delay in product launches; having more infrastructure helps;

- **Intangibles (gross)**: also increased significantly;

Q3 – Financial Statements – Income

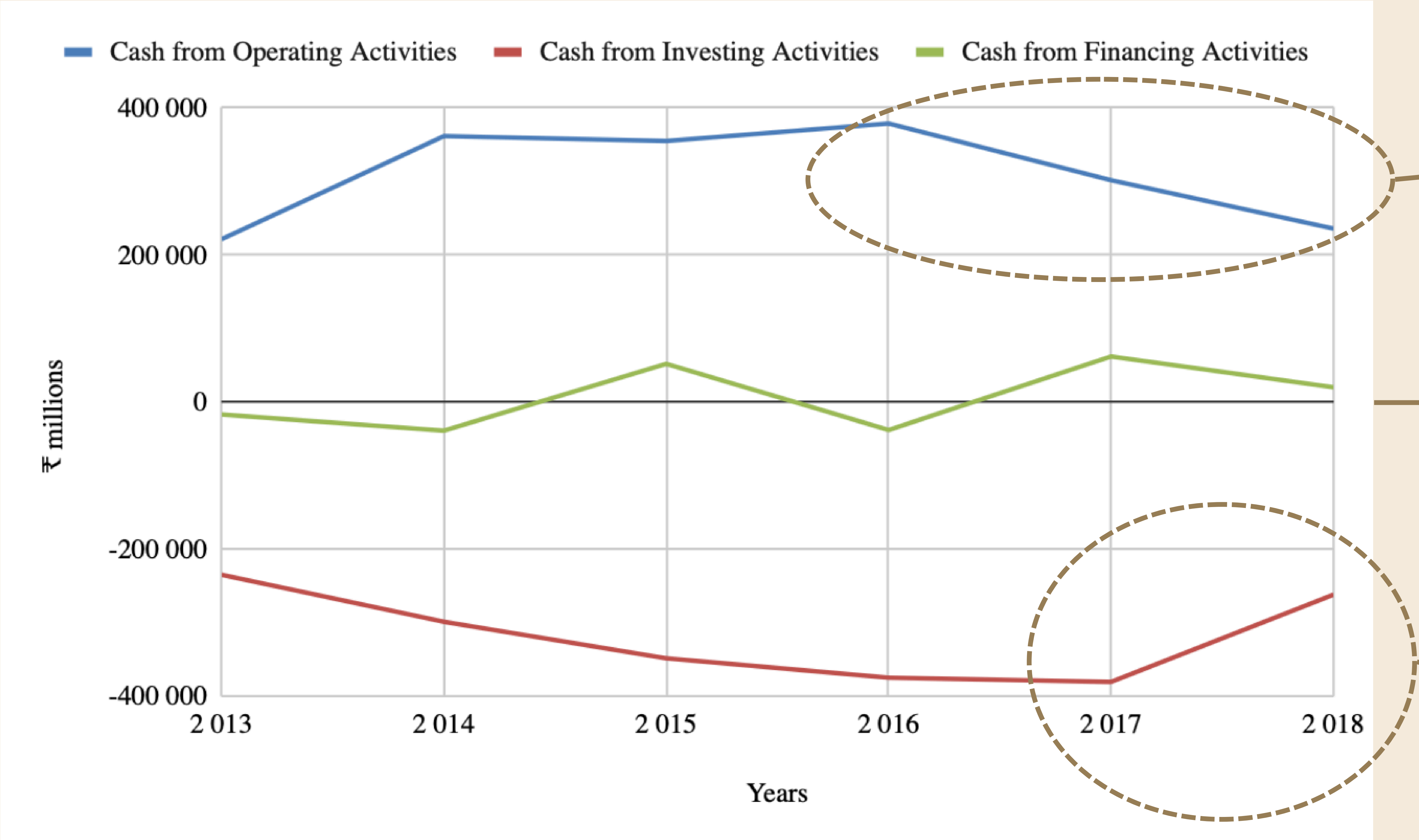


17% increase from the previous year due to the new internal approach

a significant decrease due to the new market reality

the highest positive balance in recent years

Q3 – Financial Statements – Cash-flow

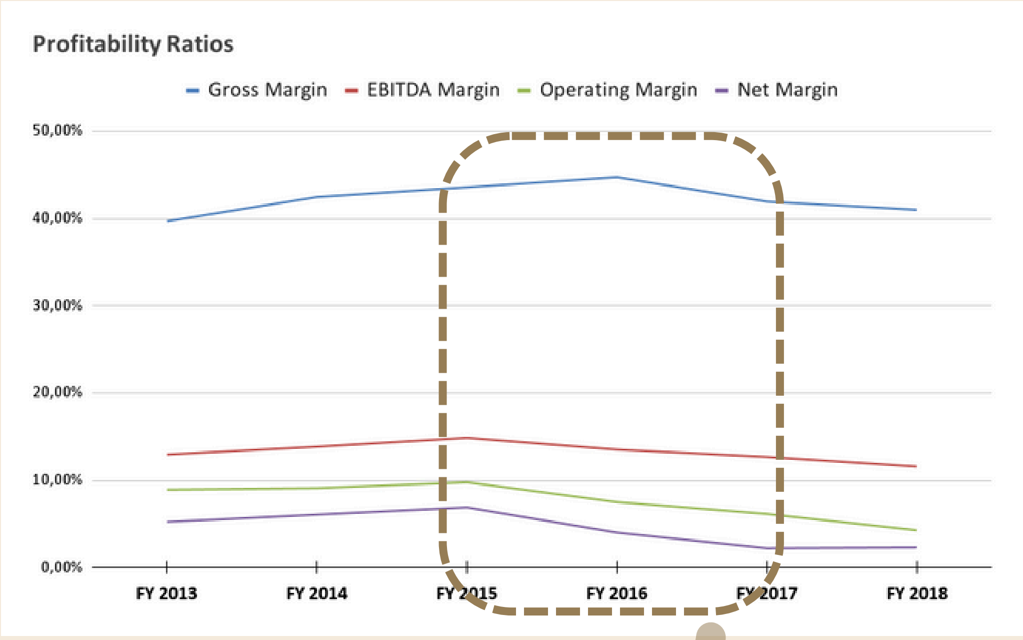


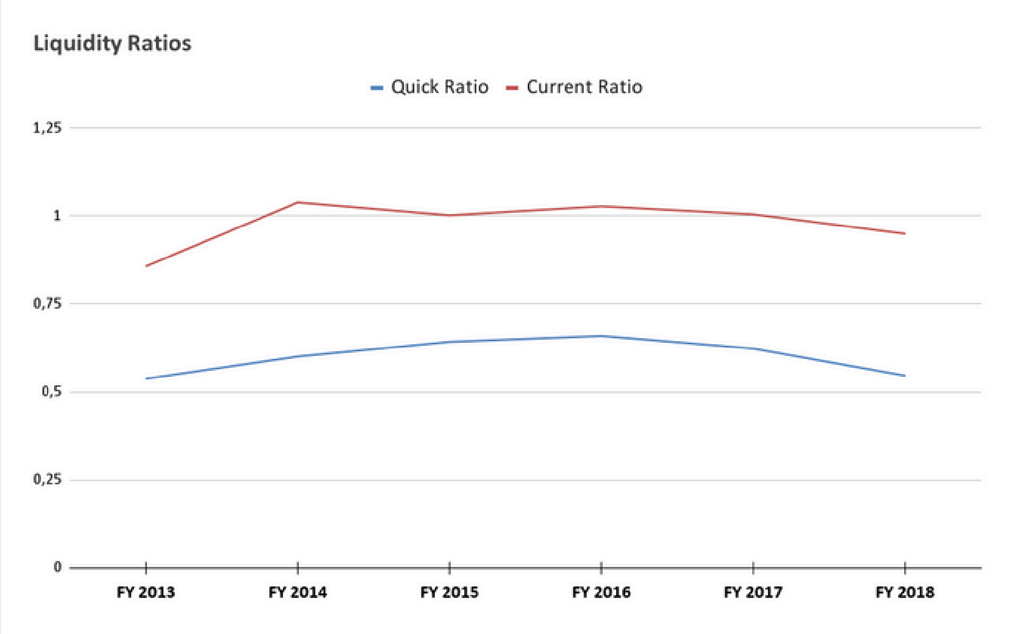
Reached values as low as those observed in 2013, revealing the crisis the company faced starting in 2016.

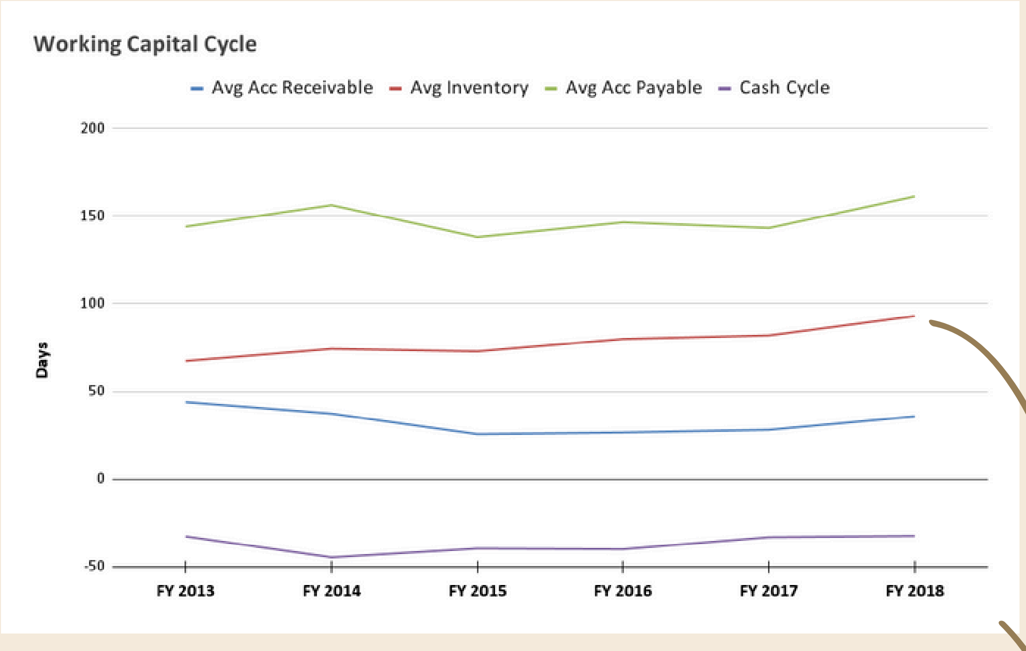
Fluctuates significantly over the years due to the dynamic market in this area and the successive implementation of laws requiring internal restructuring.

Showed a significant drop from 2017 to 2018. This decrease aligns with the reduction in short-term investments as part of the proposed cost reduction.

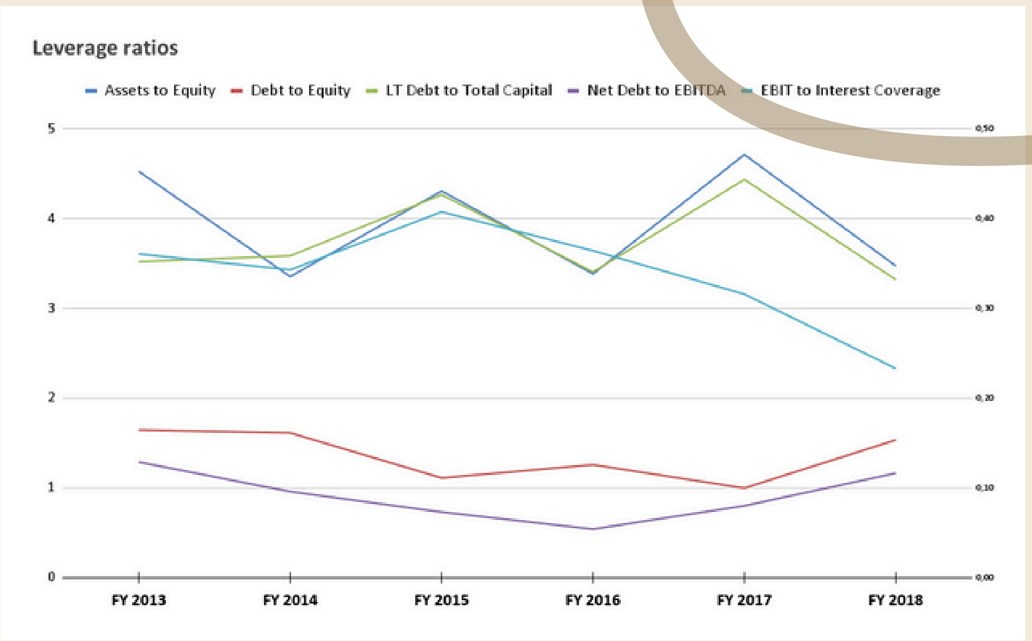
Q4 – Financial Analysis and Evolution

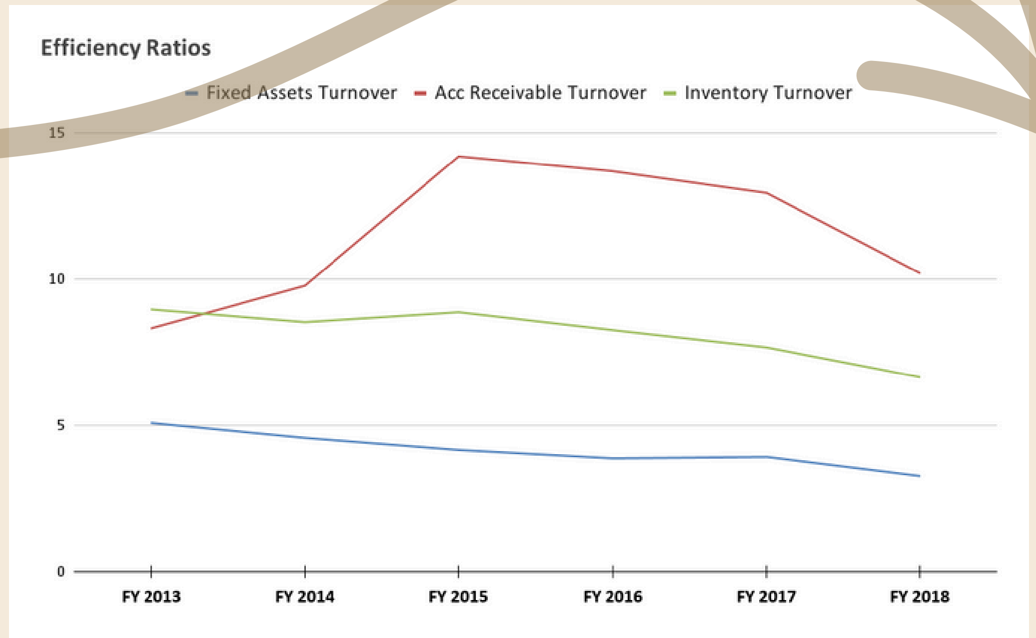






Inventory Period too long ⚠️

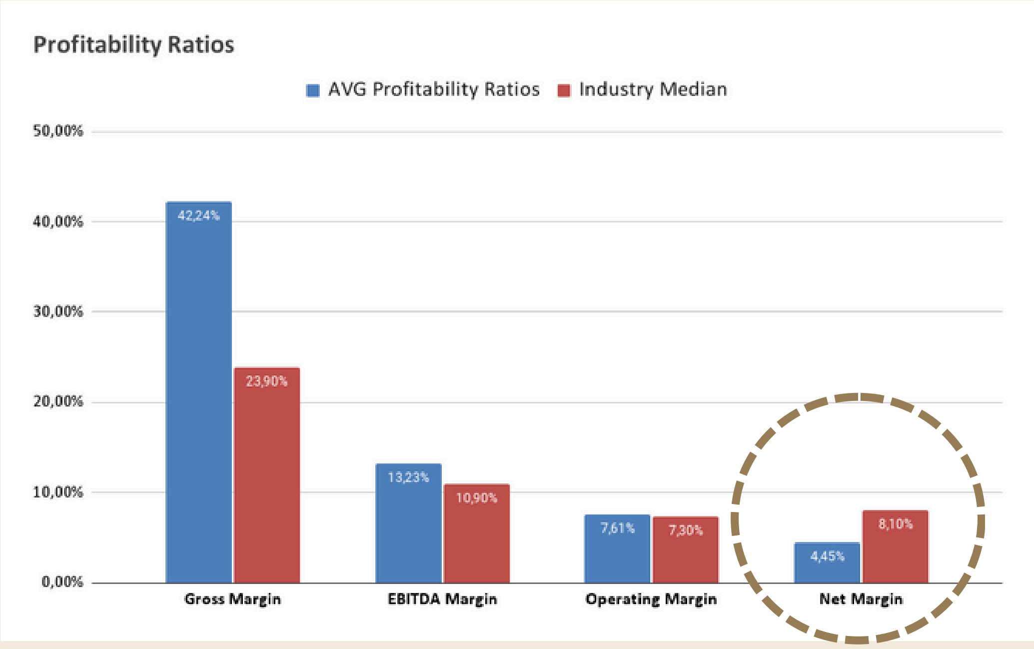


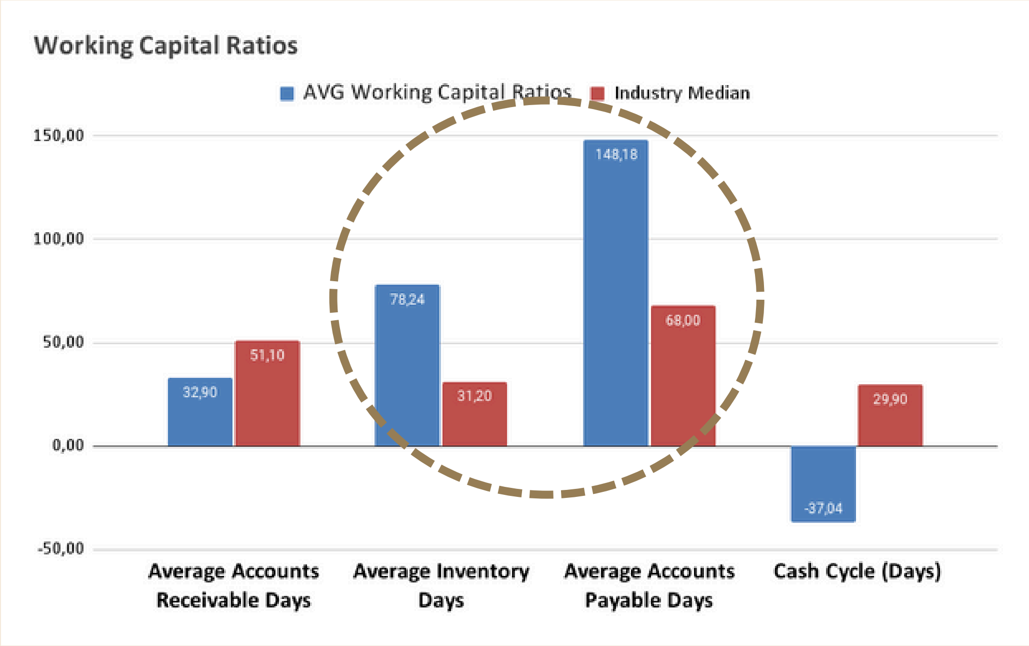


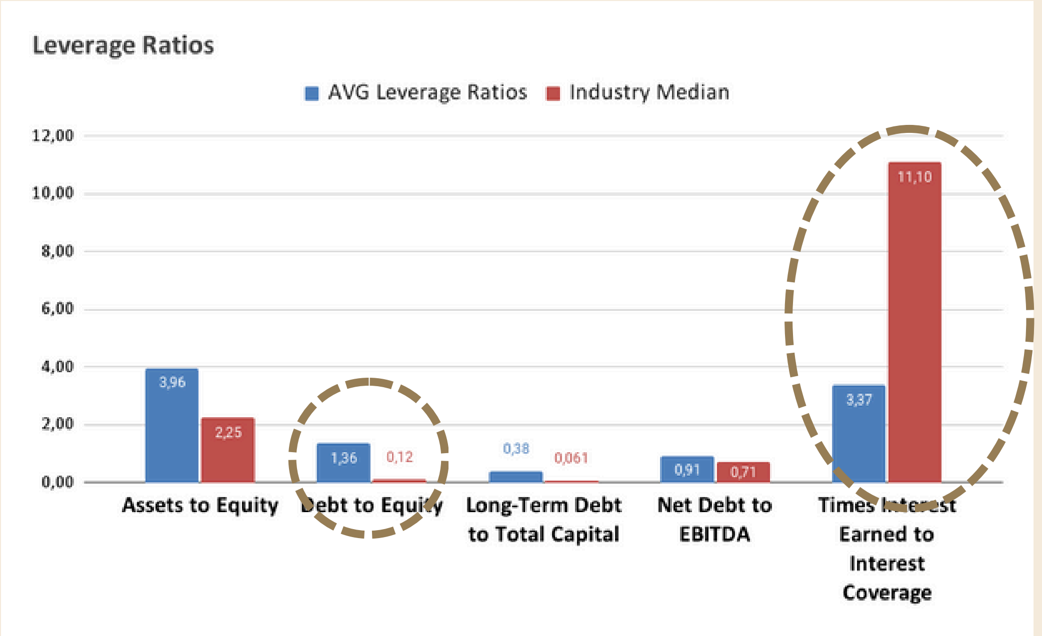
Decrease of Gross and Net Profits. 2015-2017 was the worst years in terms of Profitability

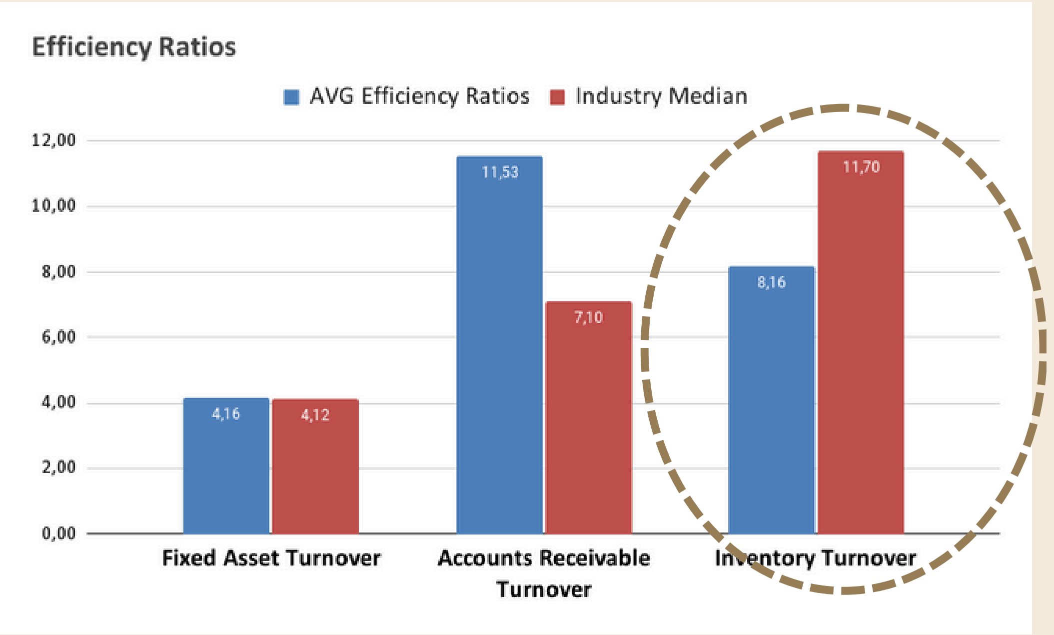
Note: Although Tata Motors' Liquidity Ratios are lower than industry median, their relatively consistent values over time can indicate a degree of financial stability. However, these low ratios also highlight potential challenges in meeting short-term obligations.

Q4 – Financial Analysis within the Industry Median values



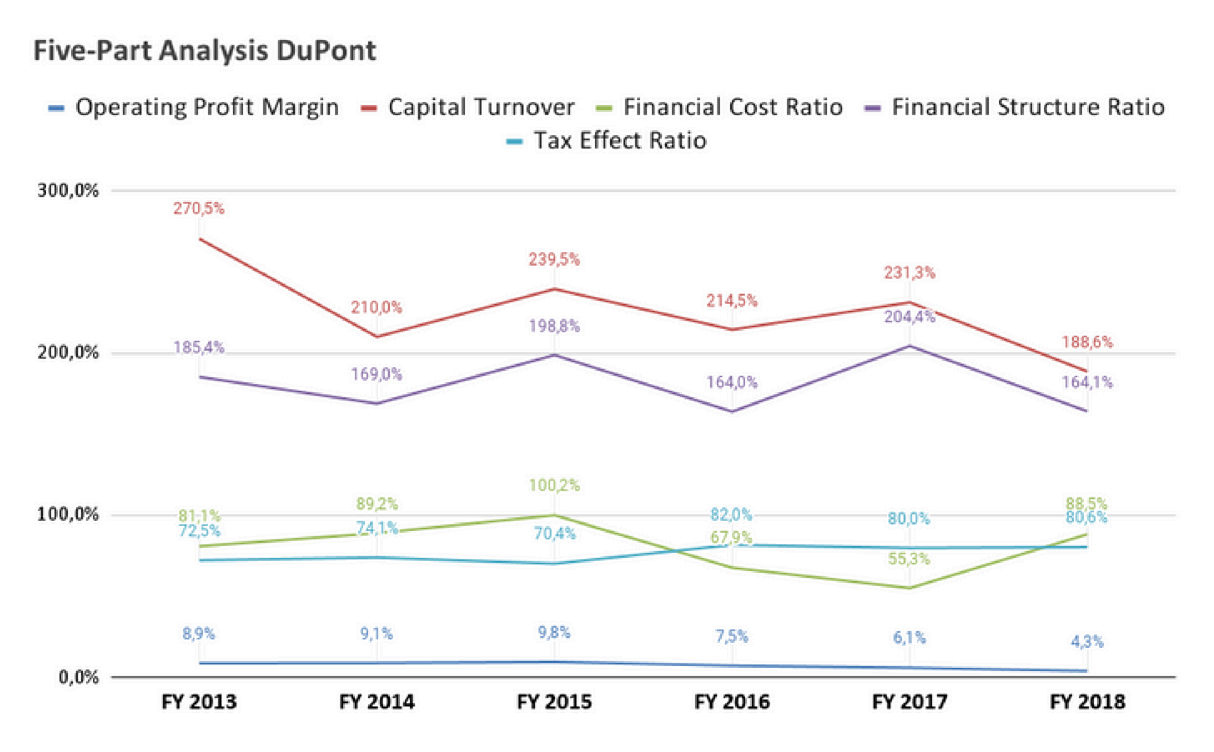


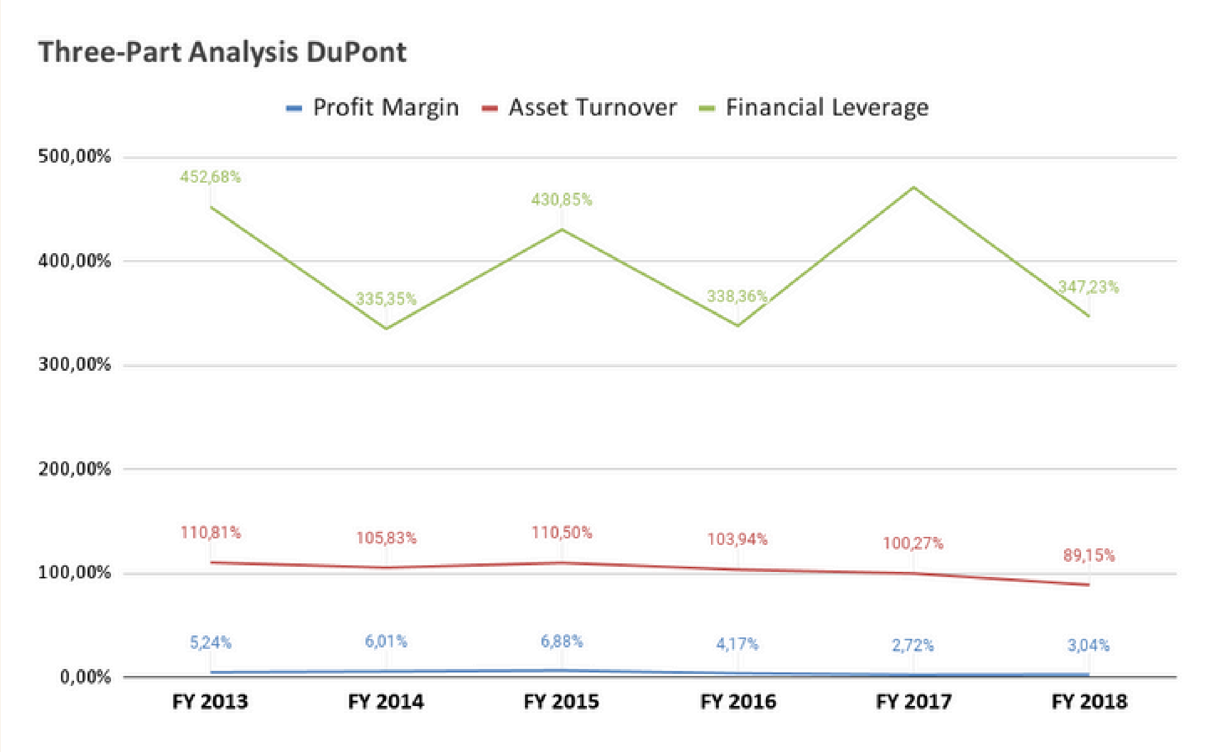


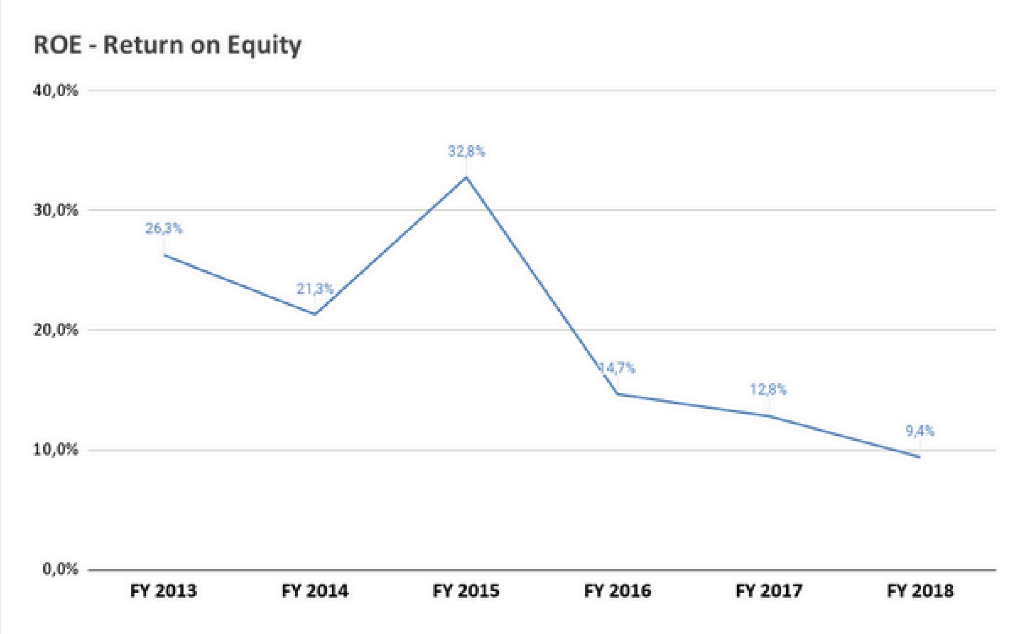


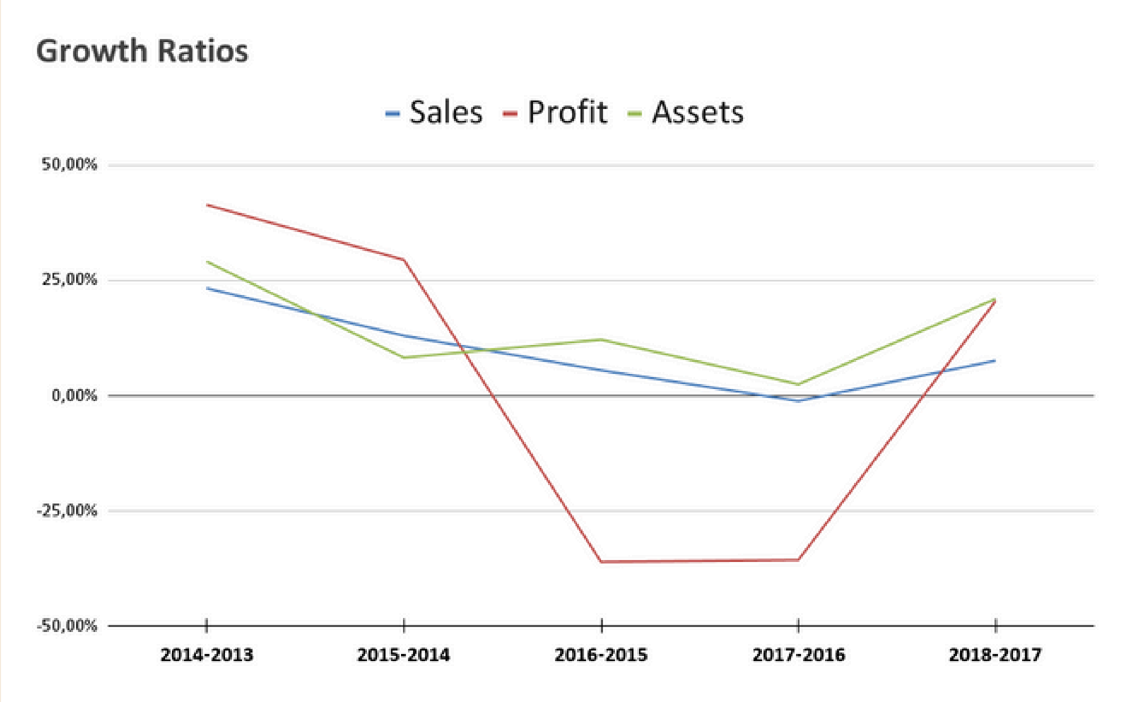
Represents values more critical to the company, related to the Industry Median, that bring concerns like the difficulties that Tata Motors presents on paying its *Short-Term Obligations* (low *Quick Ratio*)

Q4 – DuPont and Growth Ratios about tata Motors









DuPont Ratios	Formula	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Five-Part Analysis							
Operating Profit Margin (A)	EBIT ÷ Sales	8,9%	9,1%	9,8%	7,5%	6,1%	4,3%
Capital Turnover (B)	Sales ÷ Invested Capital (Invested Capital = Equity + LT Debt)	270,5%	210,0%	239,5%	214,5%	231,3%	188,6%
Financial Cost Ratio (C)	EBT ÷ EBIT	81,1%	89,2%	100,2%	67,9%	55,3%	88,5%
Financial Structure Ratio (D)	Invested Capital ÷ Equity	185,4%	169,0%	198,8%	164,0%	204,4%	164,1%
Tax Effect Ratio (E)	PAT(Net Income) ÷ EBT	72,5%	74,1%	70,4%	82,0%	80,0%	80,6%
ROE (A × B × C × D × E)		26,3%	21,3%	32,8%	14,7%	12,8%	9,4%
Three-Part Analysis							
Profit Margin (A)	Net Income ÷ Revenue	5,24%	6,01%	6,88%	4,17%	2,72%	3,04%
Asset Turnover (B)	Revenue ÷ Assets	110,81%	105,83%	110,50%	103,94%	100,27%	89,15%
Financial Leverage (C)	Assets ÷ Equity	452,68%	335,35%	430,85%	338,36%	471,49%	347,23%
ROE (A × B × C)		26,3%	21,3%	32,8%	14,7%	12,8%	9,4%

NOTE:
Important Values for the Financial Analysis are explained on “Notas”

Q4 – Tata Motors ability to generate profits and pay liabilities

ABILITY TO GENERATE PROFITS AND PAY ITS LIABILITIES

Tata Motors demonstrates a strong capability in generating operational profit.

Despite facing a financial crisis in 2017, the company managed to improve its equity value in 2018 along with increased sales and investments in assets, including fixed assets.

These factors indicate effective operational profit and cash flow management.

Biggest Concerns

- While Tata Motors effectively utilizes its long-term debt, the main concern arises from its short-term debt. Compared to industry median, the company may face challenges in meeting short-term payment obligations, especially without leveraging its assets.
- Inventory management presents another challenge for Tata Motors, as indicated by the high number of days required to renew inventory. This inefficiency could potentially impact the company's overall financial performance.

Furthermore, the significant dependency on assets raises concerns and poses risks to Tata Motors' financial stability.

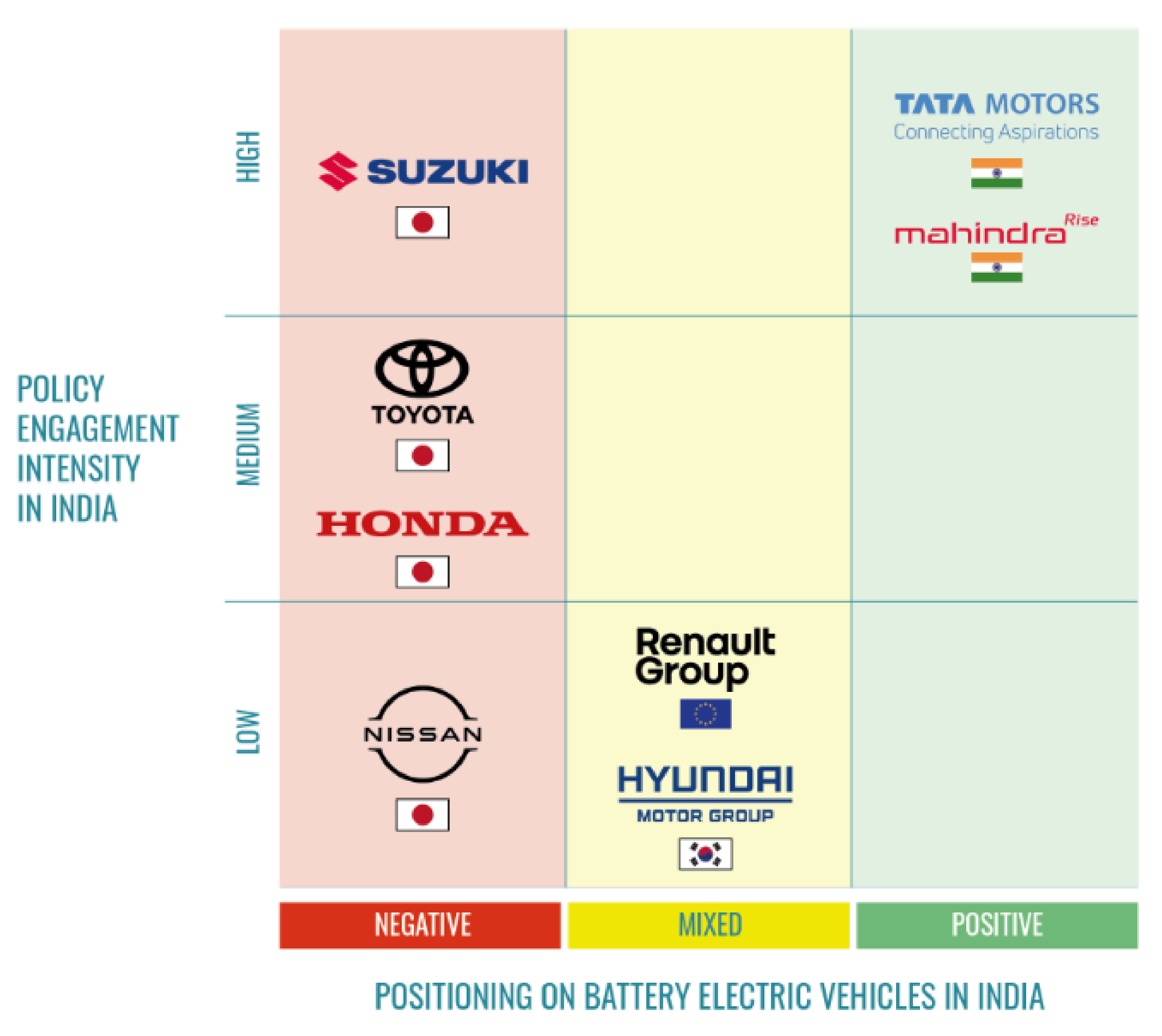
Bussiness Analysis

In 2018 the European Council stated that a reduction needs to be done

	2025	2030
Cars	**15%**	**35%**
Vans	**15%**	**30%**

https://www.consilium.europa.eu/en/press/press-releases/2018/10/10/co2-emission-standards-for-cars-and-vans-council-agrees-its-position/

Similar approach was defined in India



https://influencemap.org/briefing/Automakers-Engagement-with-Climate-Policy-in-India-26711

Bussiness Analysis

Investment in the development of new low or non-polluting models

On track in India

Must do the same in EU

Product Innovation and Differentiation

Exceed customer expectations

When turnaround strategy starts to show results, the main investment should be here - long term

Financial Analysis

Profitability ratios

- *Avg* net margin is low however it's suggested to **keep investing in an healthy way in stores and storages** - improves liquity
- To balance the operating margin - **reduce costs** (e.g. production / human resources)

Working capital cycle

- Average inventory days should be reduced to improve cash cycle even more - **optimize distribution process** (also improves *liquidity ratios*)
- Average Accounts Payable Days is high. This is good, however it can worsen relations with investors and suppliers - **Pay them sooner**

Financial Analysis

Leverage ratios

- Company is quite dependant on debt for financing - **Reduce debt**

Growth ratios

- Overall good!
- **Advertisement** can boost sales and profit even though it has a cost.

Efficiency ratios

- **Monitoring / optimize fixed assets** - avoid unnecessary assets and expenses
- **Receive assets from client faster** - not easy to implement because we are talking about cars. Most clients cannot pay for a car right away