MS 4210: Modern Corporate Finance

BE21B037 - Shreeharsha G Bhat

TVS Motor Company Ltd.

We will be analysing the annual reports of the year 2022 and 2023 (2021 for averaging). The reports can be downloaded online here.

TVS Motor Company Ltd, comes under the Automobile and Auto Components industry. They are one of India's leading two-wheeler manufacturers, renowned for their motorcycles, scooters, and mopeds. It was founded by T.V. Sundaram Iyengar in 1911 as a transportation business in Madurai, Tamil Nadu. They entered the 2-wheeler industry when they collaborated with Suzuki Motor Corporation, Japan. The company has now expanded globally, they have a significant presence in international markets across Asia, Africa, Latin America, and the Middle East. The following are the few ratios and critical comments on each aspect of TVS Motors based on their annual reports of 2022 and 2023.

1 Profitability:

We will be calculating the following ratios to asses the profitability aspects of the company

1. Gross Margin Percentage(GMP) $= \frac{Revenue\ from\ operations - Cost\ of\ materials\ consumed}{Revenue\ from\ operations} \times 100$
2. Profit Margin(PM) $= \frac{Revenue\ from\ operations - Total\ expenses}{Revenue\ from\ operations} \times 100$
3. Earnings per share(EPS) (as given in the report)

The following are the calculated values (Rupees in crores)

Ratio	2021	2022	2023
GMP	25.3	25.2	25.7
PM	4.7	5.9	7.2
EPS	12.9	18.8	31.4

Table 1: Profitability

All three ratios indicate a steady increase in the profitability of the company, this might be due to the relapse from covid-19 years. Since the company mainly operates in the automotive industry, the lockdown must have brought down the sales. The EPS has been increasing as well. Only the GMP incurred an initial decrease but an overall increase in the profit margin

2 Liquidity:

We will be calculating the following ratios to asses the Liquidity aspects of the company

1. Days' receivables = $\frac{Accounts\ Receivables}{Revenue\ from\ operations} \times 365$
2. Days' Inventory = $\frac{Inventory}{Cost\ of\ materials\ consumed} \times 365$
3. Current Ratio = $\frac{Current\ assets}{current\ liabilities}$
4. Acid-test ratio = $\frac{Cash+short\ term\ investments+net\ current\ recivables}{current\ liabilities}$

The following are the calculated values

Ratio	2021	2022	2023
Days' receivables	19.0	17.1	13.2
Days' Inventory	33.6	26.4	23.0
Current Ratio	0.8	0.6	0.6
Acid-test ratio	0.4	0.3	0.2

Table 2: Liquidity Ratios

The current ratio give us an idea of how able is the company to pay its current liabilities in that year. looking at the trend, we see that the company is doing worse in 2022 than in 2021. While sustaining that level for the year 2023 as well. When it comes to the value of the acid test ratio, which will give us the most current asset possible, we still see the steady decline in the ratio.

The days receivables and days inventory however are on a steady decrease, which tells us that efficiency wise, we can expect the company to be doing better at using their inventory and debt collected. Basically from the day a sale is made to the day the payment is done (on an average) has been decreasing throughout the years

3 Capitalization:

We will be calculating the following ratios to asses the Capitalization aspects of the company

1. Financial leverage ratio = $\frac{Assets}{Equity}$
2. Debt/equity ratio (1)= $\frac{Long\ term\ liabilities}{equity}$ or
3. Debt/equity ratio (2) = $\frac{Total\ liability}{equity}$

4. Debt/capitalization $= \frac{Long\ term\ liabilities}{Long\ term\ liabilities+Equity}$

5. Time Interest earned $= \frac{operating\ income}{interest\ expenses}$

6. Cash flow/debt $= \frac{Cash\ generate\ by\ operation}{Total\ Debt}$

The following are the calculated values

Ratio	2021	2022	2023
Financial leverage ratio	2.44	2.47	2.31
Debt/equity ratio (1)	34.55	38.14	32.01
Debt/equity ratio (2)	144.49	146.83	131.36
Debt/capitalization	25.68	27.61	24.25
Times interest earned	118.65	166.07	187.85
Cash flow/debt	2.78	2.94	3.32

Table 3: Capitalization Ratios

When it comes to capitalization, the debt to equity ratio tells us that the company has been acquiring less debt from the year 2022 to 2023, but there was a increase in debt from the year 2021 to 2022. Generally smaller the debt to equity ratio, the more safer it is, but it need not necessarily be the case here. When it comes to the times interest earned, we see that for a large company like TVS, the interest is easily covered every year.

4 Asset Utilization/ Efficiency:

We will be calculating the following ratios to asses the Efficiency aspects of the company

1. Total Asset Turnover Ratio $= \frac{Net\ Sales}{Average\ Total\ Sales}$

2. Inventory Turnover Ratio$= \frac{Cost\ of\ goods\ sold}{Average\ Inventory}$

3. Invested Capital Turnover Ratio $= \frac{Sales}{Long\ term\ liabilities+Equity}$

4. Equity Turnover Ratio $= \frac{Sales}{Equity}$

5. Receivables Turnover Ratio $= \frac{Sales}{AverageReceivables}$

The following are the calculated values

Ratios	2021	2022	2023
Total Asset Turnover Ratio	1.47	1.83	2.32
Inventory Turnover Ratio	14.73	18.28	23.19
Invested Capital Turnover Ratio	2.98	3.12	3.30
Equity Turnover Ratio	4.02	4.31	4.36
Receivables Turnover Ratio	16.43	20.39	25.87

Table 4: Efficiency Ratios

Inventory turnover ratio gives us an idea of how efficient the company is at utilizing its inventory and receivables turnover ratio gives us an idea of how well the company is at using their debts. We observe that the company is on a steady increase in these two ratios, basically getting better at utilizing their inventory and their debt.

The average values for all the above tables are given below:

Years	Total Assets	Total Inventory	Total Receivables
2020	$9,353.32$	$1,038.93$	$1,281.36$
2021	$10,197.45$	$1,151.81$	869.98
2022	$11,902.30$	$1,122.68$	972.75
2023	$13,992.39$	$1,236.36$	955.07
Average	11361.365	1137.445	1019.79

Table 5: Averages over 4 years

5 Dividend Policy:

We will be calculating the following ratios to asses the dividend policy aspects of the company

1. Dividend per share (from the annual report)
2. Dividend Payout= $\frac{Dividend}{NetIncome}$

Ratios	2021	2022	2023
Dividend per share	3.5	3.75	5
Dividend Payout	0.03	0.31	0.00

Table 6: Dividend policy ratios

When it comes to earnings per share, the bigger the better, we can clearly see that the ratio is increasing, so for everyone who owns a part of the company, this number is significant. The dividend payout tells us what percentage of the net income is the dividend, This value depicts the Covid-19 scenario, since a shift from online to offline, would increase the sales of goods, but from 2022 to 2023, the ratio would drop down back.(Note that all values are rounded of to 2 decimal digits)

6 Appendix

The Excel sheet with the formula applied, including all the average value calculations can be found here.

The Balance sheets, The Cash Flow statements and the Income statements from all the reports can be found below.

Year 2023 – Pg no. 184, 185, 187

Year 2022 – Pg no. 184, 185, 187

Year 2021 – Pg no. 102, 103, 105

Year 2020 – Pg no. 102, 103, 105

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