

Tata Motors - Case Study 3

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Tata Motors Case Study Introduction

Company Overview

Tata Motors Limited, established in 1945, is a **leading global automobile manufacturer** based in India and a part of the Tata Group.

Market Presence

With presence across various countries and with sales of over **1.2 million vehicles in FY 2018**, Tata Motors **offers a diverse range of products** including passenger cars, utility vehicles, and commercial vehicles.

TATA DAEWOO



Brands included in Tata
Motors subsidiaries

Main issues that Tata Motors was facing

Mounting Losses

Tata Motors reported a net loss in three consecutive quarters of FY 2019, with significant losses in Q3 FY 2019. Management cited the primary reasons for the loss as the challenging market conditions in China, the muted demand scenario in other markets, and a one-time exceptional item of asset impairment in JLR in Q3 FY 2019.

Revenue Realization

There was a need for Tata Motors to improve its average revenue realization per vehicle.

Stock Performance

Tata Motors' stock was trading at lower price-to-book and price-to-earnings ratios compared to industry peers, causing concern among investors.

Market Share Decline

Tata Motors experienced a significant reduction in market share. In the Indian passenger vehicle segment, the company had ceded most of its market share to Maruti Suzuki India Limited.

Key Risks that endanger Tata Motors

Intense Competition

From **both domestic and international markets**, including major global brands with established market shares in premium segments, such as BMW, Mercedes-Benz, and Audi, as well as strong domestic competitors like Maruti Suzuki and Hyundai in the mass market segment.

Changing Regulatory Environments

The transition to Bharat Stage VI (BS-VI) emission standards represents a significant challenge, involving **substantial investment in R&D** to develop compliant vehicles.

Operational Inefficiencies

High fixed costs and underutilization of capacity will lead to **reduced margins**. Managing these operational inefficiencies while simultaneously investing in innovation and new technologies is a critical balance that Tata Motors needs to achieve to improve its financial health.

Key Risks that endanger Tata Motors

Economic Volatility

The automotive industry is susceptible to macroeconomic downturns that **reduce consumer spending** and **disrupt manufacturing operations**. Fluctuations in global markets, like the slowdown in China or trade tensions between major economies, further exacerbate these challenges.

Technological Disruption

The shift towards electric vehicles (EVs), driven by both regulatory changes and consumer preferences, requires a **fundamental transformation** in **vehicle design, manufacturing processes**, and **sales strategies**. Companies slow to adapt risk losing relevance.



Potential Opportunities

Market Shift

Despite the challenges, growing markets like **electric and hybrid vehicles** offer new market share opportunities. Tata Motors can capitalize on **R&D** in EVs to capture a significant position in this emerging sector.

Government Incentives

Automotive Mission Plan 2016–26, aim to support the growth and global competitiveness of India's automobile sector. These policies could provide financial and infrastructural support to companies transitioning to new technologies.

Focus on Commercial Vehicles

Tata Motors holds a dominant position in the Indian commercial vehicle segment. Further strengthening its portfolio by introducing new models in the class and expanding into niche segments could prove to be profitable.

Potential Opportunities

Global Presence

Tata Motors' boasts a global network of operations in multiple countries offering diverse revenue streams and the potential to leverage different market dynamics. This can mitigate risks associated with dependency on a single market.

Export Potential

Given its established base in India, Tata Motors benefits from a relatively inexpensive and skilled workforce. This advantage could be leveraged to either improve profit margins by exporting mass-produced vehicles to developed countries, or increase sales volume by targeting emerging markets with more affordable options



Tata Motors' Financial Performance: Income Statement

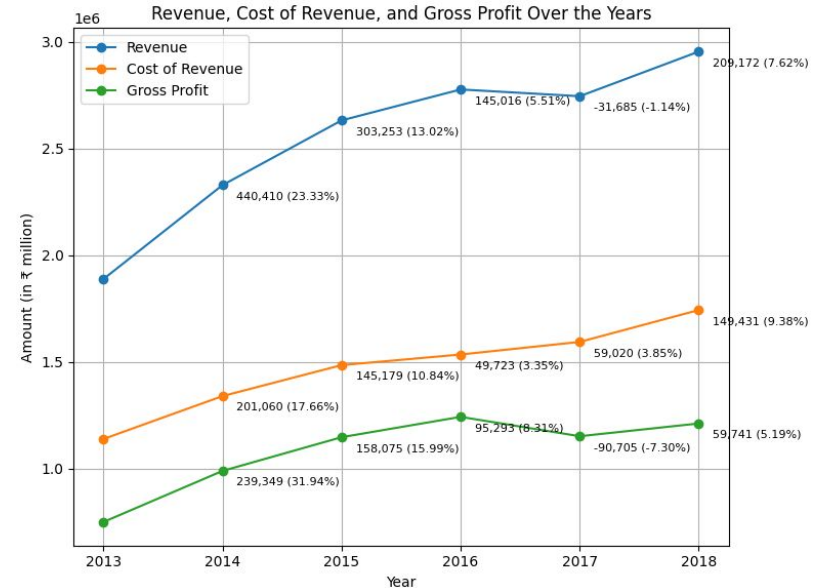
Revenue

It generally showed an increasing trend, with notable growth over the years. However, there was a slight dip observed in 2017.

Cost of Revenue

It increased in abs. value over the years. However, looking at the values represented as **percentages** we see:

- From 2013 to 2016, it dropped by about 5%, which was the biggest **drop**;
- From 2016 to 2018, it went up by around 4%. (Still lower than 2013)



	2013	2014	2015	2016	2017	2018
Revenue Cost (%)	60,30	57,53	56,42	55,26	58,05	59,00

Table 1 - Revenue Cost Over Time

Tata Motors' Financial Performance: Income Statement

Gross Profit

It increased until 2016 but started to decline in 2017. This downturn is attributed to significant **challenges** the company faced that year, making 2017 a particularly difficult period for them.

Total Operating Expenses & Net Income

Operating Expenses rose by approximately 5% over the years, with the increase beginning notably in 2016.

Consequently, the **Net Income** followed the opposite distribution. Achieved its peak in 2015 (abs. and %) @ ~7% and then decreased until ~3%.

	2013	2014	2015	2016	2017	2018
Gross Profit (%)	39,70	42,47	43,58	44,74	41,95	41,00
Total Operating Exp (%)	91,09	90,91	90,23	92,50	93,86	95,74
Net Income (%)	5,24	6,01	6,85	4,17	2,72	3,04

Table 2 - Gross Profit, Total Operating Expenses & Net Income Over Time

Tata Motors' Financial Performance: Balance Sheet

Assets Analysis

There's a huge increase in the assets value over the years.

- **Cash and Short-Term Investments** had a significant rise in value, although percentage wise it dropped a bit in 2018.
- In absolute terms, **Accounts Receivable** has no visible trend. However, in relative terms it decreased with the years. (13% to 9%) .
- Both **PP&E** and **Inventory** increased with time, which may mean that company is expanding its operations or increasing its production capacity.

	2013	2014	2015	2016	2017	2018
Cash & Short-Term (%)	13,10	13,55	18,58	18,41	18,59	14,87
Acc. Receivable (%)	13,31	10,82	7,78	7,59	7,74	8,73
Inventory (%)	12,35	12,40	12,45	12,57	13,07	13,40
PP&E (%)	21,76	23,11	26,50	26,76	25,49	27,16

Table 5 - Assets Metrics Over Time

Tata Motors' Financial Performance: Balance Sheet

Liability & Equity Analysis

- **Current Liabilities** decreased 7%, which happened mainly due to a decrease in **Accounts Payable & Accrued Expenses**. Which may indicate that Tata Motors is paying its suppliers more promptly and that the company is managing its expenses more efficiently.
- The fluctuation in **Long-Term Debt** may reflect changes in the company's long-term financial obligations over the periods.
- It seems like there's a seasonality in **Equity**, as it fluctuates in the same way. Possibly due to annually dividend payments to shareholders.

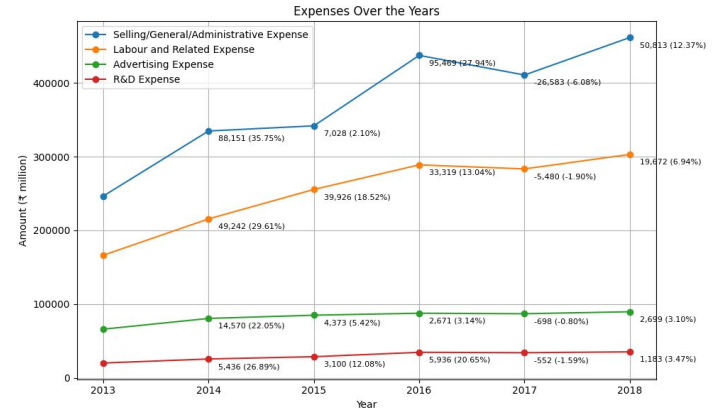
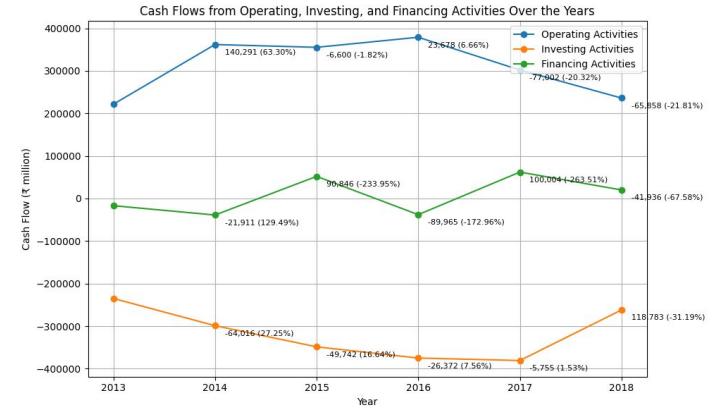
	2013	2014	2015	2016	2017	2018
Total Current Liabilities (%)	50,80	41,98	41,74	40,07	42,24	43,22
Long-Term Debt (%)	18,87	20,57	22,93	18,91	22,15	18,47
Equity (%)	22,09	29,82	23,21	29,55	21,21	28,80

Table 6 - Liability & Equity Metrics Over Time

Tata Motors' Financial Performance: Cash Flow & Expenses

Cash Flow & Expenses Analysis

- Positive cash flows from **operating activities** provide the company with the liquidity needed to fund investments in assets and growth initiatives (**investing activities**, e.g R&D) and to meet financing obligations or distribute returns to shareholders (**financing activities**).
- Negative cash flows from **Investing Activities** isn't necessarily bad, as they could be investments for the future (long-term).
- The fluctuations in cash flows from **financing activities** reflect changes in the company's investment and financing strategies, as well as market conditions and business cycles.



Economic and Financial Evolution of Tata Motors: Profitability and Liquidity

Profitability

- **Strong production efficiency**

Despite fluctuations

- Gross Margin: Remained consistently above the industry median (23.9%)

Well above Industry: Tata Motors has historically demonstrated strong profitability metrics, outperforming industry peers in generating profits from its resources.

- **Crisis Year 2017**

2017 marked a challenging period for Tata Motors, with operating margins dipping below the industry median.

Liquidity

- **Low Liquidity**

Tata Motors has faced challenges in meeting short-term obligations

- Quick/Current Ratio remained around 0.6-0.7 (median 1.01)

Slight Improvement: There have been slight improvements over time, but liquidity remains below the industry median.

Working Capital Cycle

Negative Cash Cycle: Tata Motors benefits from an extended payables period, resulting in a negative cash cycle, reducing the need for external financing.

Economic and Financial Evolution of Tata Motors: Efficiency and Financial Analysis

Efficiency

- **Declining Fixed Asset Efficiency**
Decreased efficiency in utilizing assets to generate sales.
 - Declined from 5.09% in 2013 to 3.28% in 2018.
- **Slowing Inventory Turnover:**
leading to higher holding costs.
 - Decreased from 9.0 in 2013 to 6.7 in 2018.

Leverage

- **High Fluctuation Levels**
 - Increased risk and impact on its ability to meet long-term obligations
- **Risky Capital Structure**
high level of debt relative to earnings
 - Net Debt to EBITDA: Peaked at 1.25 in 2013 and again at 1.23 in 2018
- **Significant Long-Term Debt to Total Capital**
 - Peaked at 44.4% in 2017

DuPont Analysis ROE (return on equity) Declined from 32.6% in 2015 to 9.4% in 2018

- Reduced profitability and returns for shareholders.

Tata Motors shows strengths in profitability and efficiency but faces challenges in leverage and liquidity, requiring a balanced approach for sustained growth.

SWOT Analysis

Strengths

- Strong Brand Recognition
- International Presence

Weaknesses

- Liquidity Challenges
- Low Operating Margins

Opportunities

- Expansion into Emerging Markets
- Cost Optimization and Innovation
- Sustainable Practices

Threats

- Economic Crises
- Intense Competition
- Regulatory Changes

Strategies

Reduce Debt Levels

- **Debt Restructuring:** Explore refinancing options to reduce interest costs and extend debt maturities.
- **Asset Sales:** Consider divesting non-core assets to generate cash for debt repayment.

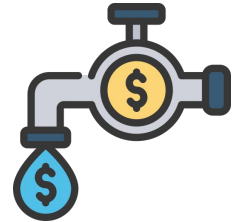


Enhance Profitability

- **Cost Optimization:** Implement cost-cutting measures and improve operational efficiencies across the supply chain.
- **Product Mix Optimization:** Focus on high-margin segments and innovate to meet consumer demand in growing markets.

Improve Liquidity:

- **Working Capital Management:** Optimize inventory levels and improve receivables collection to enhance cash flow.
- **Short-Term Financing:** Secure more favorable short-term credit lines to bridge liquidity gaps.



Strategies

Boost Operational Efficiency

- **Technology Investment:** Invest in automation and advanced manufacturing technologies to increase productivity.
- **Supplier Relationships:** Strengthen relationships with suppliers to negotiate better terms and reduce procurement costs.

Expand Market Presence

- **Geographical Diversification:** Expand into emerging markets to tap new growth opportunities.
- **Electric Vehicles (EV):** Accelerate the development and launch of EVs to capture market share in the growing green vehicle segment.

Strengthen Financial Management

- **Risk Management:** Implement robust risk management practices to mitigate financial and operational risks.
- **Performance Metrics:** Establish key performance indicators (KPIs) to regularly monitor financial health and operational efficiency.

