TATA MOTORS

# FINANCIAL ANALYSIS AND REPORTING

Annual Report Analysis

# Table of Contents

# I Introduction to the Study

## 1.1. Introduction

Finance is an integral aspect of every business. The success of an association depends on how adeptly the establishment is managing the finances available to them. The content for the design is " A study on the financial performance of Tata Motors Limited ". There are numerous stakeholders in a company, including trade creditors, bondholders, investors, workers, and operation. Each group has its own interest in tracking the fiscal performance of a company. Understanding fiscal performance is essential for every association because utmost of the association's pivotal opinions depend on the financials. Understanding fiscal performance is necessary because they help in the decision- making process of the company. fiscal performance analysis is the process of determining the operating and fiscal characteristics of a establishment from account and fiscal statements. The thing of similar analysis is to determine the effectiveness and performance of establishment's operation, as reflected in the fiscal records and reports.

The study on financial performance of the company is by using ratio analysis to assess the solvency, liquidity, and profitability of the named company. Ratio analysis is a quantitative system of gaining sapience into a company's liquidity, functional effectiveness, and profitability by studying its financial statements similar as the balance distance and income statement.

## 1.2. Statement of the Problem

The effectiveness of the financial performance involves decision making in the organization with the help of various analytical tools to recognize the profitability, solvency and liquidity position and to check whether the organization is in a position to meet their obligations in properly and timely manner. Here the problem is to study about the financial performance of Tata Motors Ltd.

## 1.3. Objectives of the study

- ➔ To analyse the financial performance of the selected company
- ➔ To gain practical knowledge in analysis.
- ➔ To assess the solvency, liquidity, and profitability.

## 1.4. Period of study

The study is based on the current year and past four years. That is 2017-2022.

## 1.5. Source of data:

The data used for the study is a secondary data. It was collected from the company's website.

## 1.6. Tools used for analysis

Two tools that were used for analysing the financial performance of Tata Motors. The two tools are:

- ➔ Ratio Analysis
- ➔ Du-Pont Analysis

# II Company Analysis for Tata Motors

## 2.1. Tata Motors – An Introduction:

Tata Motors Limited is the major manufacturer of automotive commercial buses, cars, and trucks and protection (Business Standard Private Ltd., n.d.). Tata Motors Limited took over the Jaguar Land Rover business from Ford Motors in June 2008. Jaguar Land Rover are international automobile corporations developing, producing, and selling luxury sedans and sports cars, and premium Landrover, all-terrain vehicles, and related parts.(Tata Motors Limited). The corporation became the first car firm from India to be listed on the New York stock exchange in September 2004. (Tata Motors Limited). Tata Motors' sudden drop in price was paradoxical as most observers still assume the worth of their stock, the assumption that Tata Motors is underestimated is nearly justified. (Kotak Securites, n.d.). All other operations segment of the corporation involves information technological services, and machine tools and factory automotive services. (Reuters, n.d.).

Ratio analyses are one of the common techniques for checking financial statements. Banks and other borrowers built it to help take credit from rival firms. (Prachi Juneja, n.d.). Worldwide sales of Jaguars and Land Rovers have been more than doubled since Tata bought them. They add up to one billion dollars in pretax profits for Tata in its most recent quarter. (Bill Vlasic, 2015). 77-year-old retired chairman, Ratan Tata envisioned to branch out into autos by building low-cost cars for its home market. (Bill Vlasic, 2015). Tata Motors receives profit firstly from its Jaguar Land Rover segment which is assumed to make 73% total profit In the year 2020. (Trefis Team, 2019). Jaguar Land Rover owned by Tata Motors hopes to stop the spread of antibiotic-resistant superbugs by ventilation installed cars in the future. Tata Motors is committed to social responsibility in letter and spirit. It is a signatory to the UN Global Compact and participates in community and society projects in line with the principles of the

World Compact on labor and environmental standards. Therefore, it plays an active role in the growth of communities serving rural populations adjacent to its factories.

## 2.2. Financial Statement Analysis of Tata Motors

### 2.2.1. Working Capital Analysis of Tata Motors

### Functions:

Working capital is necessary to run the day – to – day activities in a business. It is the amount that is funded for business operations. More working capital as well as less working capital, both are hazardous from the view of a business. Working capital is calculated using the below formula:

Working Capital = Current Assets – Current Liabilities

#### 2.2.1.1. Analysis of Working Capital as a percentage of sales

| Working Capital | | | | | | | |
|---|---|---|---|---|---|---|---|
| Turnover Ratios | | | | | | | |
| Non cash CA | | 87803.95 | 106094.99 | 92341.53 | 90257.91 | 96136.44 | 86109.31 |
| Working Capital | Non cash CA -CL | -27,825.57 | -37,124.48 | -53,115.90 | -50,196.14 | -61,612.74 | -64,573.50 |
| Working Capital as a percentage of sales | Working Capital/Sales | -10.32% | -12.60% | -17.59% | -19.23% | -24.67% | -23.19% |

### Analysis:

- ➔ The working capital as a percentage of sales is fluctuating a lot which shows that there will be a decrease in the stock price of the company.

## 2.2.2. Cash Flow Statement Analysis

## Functions:

A cash flow statement is a financial statement that presents total data. Including cash inflows a business gains from its continuing progress and external financing sources, as well as all cash outflows that pay for trading activities and finances during a delivered time. A cash flow statement ignores non-cash transactions

### 2.2.2.1. Analysis of cash flow statement

TATA MOTORS

| ( in Rs crs) | FY 17 | FY 18 | FY 19 | FY 20 | FY 21 | FY 22 |
|---|---|---|---|---|---|---|
| Cash from Operations activities | 30,199.25 | 23,857.42 | 28,770.87 | 23,352.48 | 29,000.51 | 14,282.83 |
| Cash from Investing activities | -38,079.88 | -26,201.61 | -19,711.09 | -34,170.22 | -26,126.25 | -4,775.12 |
| Cash from Financing activities | 13,986.76 | 14,716.75 | 8,830.37 | 3,389.61 | 9,904.20 | -3,380.17 |
| Net cash flow | 6,106.13 | 12,372.56 | 17,890.15 | -7,428.13 | 12,778.46 | 6,127.54 |

## Analysis:

- ➔ Cash from operating activities is fluctuating every year. It is increasing and decreasing in successive years. But, the cash flow from operating activities has been highly positive, which says that the company is earning well from their daily business activities.

- ➔ Cash from investing activities is on negative trend all through the 6 years. Company is open to borrowings, they have lots of credit to pay back. Company is exposed to investing activities.

- ➔ Cash from financing activities of Tata motors is positive all through the first 5 years and then it has dropped down to negative state in the year 2022. From 2017-2021, there is more money coming into the company i.e., company’s structure is well managed.

- ➔ The net cash flow available in the company was hail and healthy in all the years except 2020. This is because of the COVID-19. They were unable to meet their needs so, they invested a lot to improve their business.

## 2.3. Analysis on Profitability

### Functions:

Profitability ratios assess a company's ability to earn profits from its sales or operations, balance sheet assets, or shareholders' equity. Profitability ratios indicate how efficiently a company generates profit and value for shareholders. Higher ratio results are often more favorable, but these ratios provide much more information when compared to results of similar companies, the company's own historical performance, or the industry average.

### 2.3.1. Analysis of profitability ratios

| Profitability Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|
| EBITDA Margin | EBITDA / Sales | 11.0% | 11.7% | 8.2% | 6.9% | 12.9% | 8.9% |
| EBIT Margin | EBIT / Sales | 4.3% | 4.4% | 0.4% | -1.3% | 3.5% | 0.0% |
| PAT Margin | Net Profit / Sales | 1.8% | 1.6% | 0.2% | -3.1% | 0.3% | -3.8% |

### Analysis:

- ➔ Tata motors' profit value has been on a decreasing trend. In the year 2020 and 2022, the company was running on a loss % of 3.
- ➔ EBIT and EBITDA margin have been increasing till the year 2018 and it has decreased in the succeeding 2 years because of reducing in operating expenses and increase in investing activities.

## 2.4. Analysis on returns

### Functions:

An investment is made by any business to obtain returns. These returns are analyzed using Return Ratios that measure how effectively an investment is being managed. They help to evaluate if the highest possible return is being generated on an investment.

### 2.4.1. Analysis of return ratios

| Return Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|
| Return on equity | Net Profit after Minority interest/ Net Worth | 8.5% | 5.1% | 1.2% | -12.8% | 1.3% | -23.8% |
| Return on Total Assets | EBIT / Total Assets | 4.3% | 3.9% | 0.3% | -1.1% | 2.5% | 0.0% |
| Return on Capital Employed | EBIT / (Equity + Debt + MI) | 9.81% | 8.25% | 0.82% | -2.26% | 5.63% | -0.08% |

### Analysis:

- ➔ The return on equity of the company has been decreasing all through the 6 years because the cash from financing activities has always been positive.
- ➔ The return on assets of the company is in decreasing trend till 2020 and it showed a minor increase in 2021 which indicates that they used their assets in a effective manner.
- ➔ The return on capital employment of the company is decreasing a lot and it showed negative in 2020 because of COVID. In 2021, it showed a drastic increase which shows that the company had planned to expand their business in 2021.

## 2.5. Analysis on liquidity

### Functions:

Liquidity is a very critical part of a business. Liquidity is required for a business to meet its short-term obligations. Liquidity ratios are a measure of the ability of a company to pay off its short-term liabilities. Liquidity ratios determine how quickly a company can convert the assets and use them for meeting the dues that arise. The higher the ratio, the easier is the ability to clear the debts and avoid defaulting on payments.

### 2.5.1. Analysis of liquidity ratios

| Liquidity Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|
| Current Ratio | Current Assets / Current Liabilities | 1.01 | 0.95 | 0.85 | 0.85 | 0.93 | 0.98 |
| Quick Ratio | (Cash + Receivables) / Current Liabilities | 0.37 | 0.35 | 0.34 | 0.29 | 0.40 | 0.49 |

### Analysis:

- The current ratio of the company is less than 1 which shows that the company does not have enough assets to meet its liabilities.
- The quick ratio of the company is very low and there is no major increase in the cash and cash equivalents.
- The company does not manage its working capital properly.

## 2.6. Du-Pont Analysis

### Functions:

The DuPont analysis is a framework for analyzing fundamental performance originally popularized by the DuPont Corporation. The formula was developed in 1914 by F. Donaldson Brown, an employee of the DuPont Corporation. DuPont analysis is a useful technique used to decompose the different drivers of return on equity. An investor can use analysis tools like this to compare the operational efficiency of two similar firms. Managers can use DuPont analysis to identify strengths or weaknesses that should be addressed.

### 2.6.1. Du-Pont Analysis Ratios

| Dupont Analysis | | | | | | | |
|---|---|---|---|---|---|---|---|
| ROE | NPM*ATR*Leverage | 8.5% | 5.1% | 1.2% | -12.8% | 1.3% | -23.8% |
| NPM | Net Profit / Sales | 1.8% | 1.6% | 0.2% | -3.1% | 0.3% | -3.8% |
| Asset Turnover | Sales / Total Assets | 0.99 | 0.89 | 0.98 | 0.81 | 0.73 | 0.84 |
| Leverage (Gearing) | Assets / Equity | 4.71 | 3.47 | 5.10 | 5.11 | 6.21 | 7.42 |

### Analysis:

- ➔ The net profit margin of the company has been on a decreasing trend and it went to negative state in 2020 because of the COVID pandemic. The profitability of the company is very poor.
- ➔ Asset turnover ratio of the company is fluctuating every successive year. But, there is no high fluctuations in the ratios. It shows that the assets of the company were utilized in a proper manner.

- ➔ The leverage of the company shows an increasing trend from 2018 which states that there are more loans that are to be repaid .
- ➔ The return on equity of the company has been decreasing all through the 6 years because the cash from financing activities has always been positive. It has increased in 2021 stating that they have returns that are owed to the shareholders are improved.

## 2.7. Efficiency Analysis

### Functions:

The efficiency ratio is typically used to analyze how well a company uses its assets and liabilities internally. An efficiency ratio can calculate the turnover of receivables, the repayment of liabilities, the quantity and usage of equity, and the general use of inventory and machinery. This ratio can also be used to track and analyze the performance of commercial and investment banks. An efficiency ratio measures a company's ability to use its assets to generate income.

### 2.7.1. Analysis of efficiency ratios

| Efficiency Ratios | | | | | | | |
|---|---|---|---|---|---|---|---|
| Inventory Turnover Ratios | Sales/Inventory | 7.69 | 6.99 | 7.74 | 6.97 | 6.92 | 7.90 |
| Receivables Turnover Ratios | Sales/Receivables | 19.16 | 14.81 | 15.89 | 23.37 | 19.70 | 22.38 |
| Fixed Asset Turnover Ratio | Sales/Fixed Assets | 1.72 | 1.51 | 1.64 | 1.29 | 1.27 | 1.52 |
| Asset Turnover Ratio | Sales /Total Assets | 0.99 | 0.89 | 0.98 | 0.81 | 0.73 | 0.84 |

### Analysis:

- ➔ Inventory turnover ratio of the company does not show high fluctuations which indicates that the inventory converted to sales in the company is stable.
- ➔ Receivables turnover ratio shows a decreasing trend till 2020 and in 2021, the ratio has increased a lot stating that the company has taken fine measures in the collection of receivables.

- ➔ Fixed assets turnover ratio of the company is stable i.e., there is no high difference in the ratios which indicates that the company has used their fixed assets in a good manner to improve the profit of the company.
- ➔ Asset turnover ratio of the company is fluctuating every successive year. But, there is no high fluctuations in the ratios. It shows that the assets of the company were utilized in a proper manner.
- ➔ The assets present in the company were efficiently utilized by the company to improve their profitability.

# III Findings, Suggestions and Conclusion

## 3.1. Findings:

1. In the company of tata motors, there were more fluctuations during the time period 2020 to 2022 because the company faced a huge loss in the financial year FY20 and FY22. In the financial year FY21, they have utilized their assets in an effective way and obtained good level of profit.

2. The company does not contain enough assets with them to meet their liabilities. The average current ratio of the company is 0.93. This indicates that the company does not even have Rs.1 of current assets for a rupee of current liability.

3. The turnover ratios i.e., Inventory turnover ratio, Receivable turnover ratio, Fixed asset turnover ratio and Asset turnover ratio of the company is stable all through the 6 years. This shows that the company is able to constantly turn the sales in into stock, assets or receivables.

4. The payable days are very high which states that the company takes a lot of time to repay the debt whereas the receivable days are on an average of 33 which shows that the company is good in collection of the receivables from debtors.

5. The business shows negative cash flow in some years which is because they do not have enough cash balance when compared to the debts borrowed from creditors or banks.

6. The return on capital employment of the company is decreasing a lot and it showed negative in 2020 because of COVID. In 2021, it showed a drastic increase which shows that the company had planned to expand their business in 2021.

7. Cash from investing activities is on negative trend all through the 6 years. Company is open to borrowings, they have lots of credit to pay back. Company is exposed to investing activities.

8. The company is very pure in the entry of financial statements. The company has entered the values genuinely without any red flags.

9. The company did not borrow more unsecured loans. They have borrowed huge loans from the secured and verified sources.

10. The company’s goodwill is less than 20% of its total assets which is very good for the company.

## 3.2. Suggestions

### 1. Cash management:

The company's payables showed a major increase in the five years. The company should repay the debts. The company should take good measures to collect the receivables. The company has negative cash conversion cycle which is good for the company point of view.

The net cash flow of the company has reduced drastically in the year 2020 because they have invested a huge amount in their business. The company should find a measure to reduce the investing operations and obtain a positive net cash flow.

## 2. Improve profitability

The company recorded a very strong growth by higher sales, low investments till 2019 and in 2020 the company ran on a loss on about 8103 crores because of higher investments.

To get good profits, the company should reduce the investments and collect the receivables.

## 3. Efficient use of Assets

The company has used their assets in a efficient way which can be seen from the Asset turnover ratios and Fixed asset turnover ratios. The company should maintain the usage of the assets in a fine way and help in improving the profitability of the company.

## 4. Increase the returns

The company's returns are very low. They do not have enough resources to fulfil the liabilities. The company should take measures to improve the net profit of the company which would help the company to increase the return on equity.

The return on total assets should increase because the EBIT of the company is very low.

The EBIT value should be high in order to get good returns.

## 5. Increase the PAT margin

The PAT margin of the company has been on a decreasing trend in the five years. This is because they have got good revenue in the years but they were unable to get profit in the same manner. To increase the profit, a small amount must be invested for the expansion of business and the remaining must be kept as reserves which may help the company obtain good profit.

## 3.3. Conclusion

To conclude, the Tata Motors company has shown its impact on the industry. We can see the downfall of tata motors, but it is expected, as it is such a big company. In this report, we have seen that there is an abnormal amount of debt from Tata motors. Their ability to make the contractual payment has also been hugely decreased. Looking at all the three years, 2017 is considered the best financial year out of the three years. It had the highest current and quick ratio in the year 2017 and the rate has fallen ever since, which clearly shows that liquidity has decreased over time. If the company manages its assets well and finances its debt properly, it is expected to recover from the loss.

### 3.3.1. Strength of Tata motors

- ➔ The strength of Tata motors is they have collected the receivables in a shorter span.

### 3.3.2. Weakness of Tata motors

- ➔ The weakness of Tata motors is they have received less profit in the past 6 years.
- ➔ They have more debts that are not repaid.

# 4. References

Tata motors official website – Annual reports