FINANCIAL PERFORMANCE ANALYSIS OF TVS MOTOR COMPANY LIMITED

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Abstract: Finance is regarded as the life-blood of every business enterprise. No business, whether big, medium or small can be started without adequate amount of finance. Finance may be defined as the provision of money at the time when it is required. Finance refers to the management of flows of money through an organization. It concerns with the application of skills in the manipulation, use and control of money. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. This study is based on the "Financial performance analysis of TVS Motor Company Limited".

INTRODUCTION

Every business concern wants to know the various financial aspects for effective decision making. The term 'financial analysis' is also known as analysis and interpretation of financial statements. Financial analysis is the process of identifying the financial strengths and weaknesses of the firm, by properly establishing the relationships between the items contains in balance sheet and profit and loss account.

The purpose of financial analysis is to diagnose the information content in financial statements so as to judge the profitability, financial soundness of the firm and chalk out the way to improve existing performance. Financial statement is an official document of the firm, which explores the entire financial information of the firm. The main aim of the financial statement is to provide information and understand the financial aspects of the firm.

Financial statements refer to formal and original statements prepared by a business concern to disclose its financial information. In the words of Hampton J J, "The statement disclosing status of investments is known as balance sheet and the statement showing the result is known as profit and loss account". Thus, the term financial statement has been widely used to represent two statements prepared by accountants at the end of specific period. They are: (1) profit and loss account or Income statement; and (2) balance sheet or statement of financial position.

RATIO ANALYSIS

Ratio analysis is one of the techniques of financial analysis where ratios are used as a yardstick for evaluating the financial condition and performance of a firm.

Ratio analysis is one of the important techniques which are used to measure the establishment of relationship between the two interrelated accounting figures in financial statements. This analysis helps to Management for decision making. Ratio analysis is an effective tool which is used to ascertain the liquidity and operational efficiency of the concern.

OBJECTIVES OF THE STUDY

The objectives of the study are stated as follows:

1. To analyse the financial performance of the company.
2. To analyse the data with the help of selected tools.
3. To offer suggestion for the improving financial performance of the company.

RESEARCH DESIGN

The study is based on secondary data. The data were collected from the balance sheet and profit & loss account of TVS Motor Company Limited. The necessary data were obtained from published annual report of the company.

TOOLS USED

The following tools were used for this study.

- ♦Ratio Analysis,
- ♦Common -size Statement,
- ♦Comparative Statement,
- ♦Trend Analysis

REVIEW OF LITERATURE

Moses Joshuva Daniel (2013) in his study "A Study on Financial Status of TATA Motors Ltd" stated the main objectives to analyzing the overall financial status of the TATA Motors Ltd by using various financial tools. In order to analyze financial status in terms of Profitability, Solvency, Activity and Financial stability various accounting ratios have been used. It is cleared from the study that 37 the company‟s financial performance is satisfactory. The company has stable growth and it shows a greater status in all the areas it works. The company has been suggested to reduce the expenditure as it increases every year. Decrease in expenses will increase the profitability.

S. Selvanayaki, A. Roshini, N. Deepa & M. Chandakumar (2017) -This study was done to evaluate the financial characteristics of rice milling firms and to analyse the variance in the financial characteristics among partially and fully modernized rice milling firms. Financial performance was analysed using ratios under the sub sections namely term financial position, long term financial position and asset management. Multivariate analysis of variance was carried out to analyse the variance among the fully modernized and partially modernized rice milling firms. Univariate F-value test statistics revealed that the financial characteristic of partially modernized and fully modernized firms were significantly different in terms of most financial ratios.

TYPES OF RATIOS

PROFITABILITY RATIOS

Profit making is the main objective of business. Aim of every business concern is to earn maximum profits in absolute terms and also in relative terms i.e., profit is to be maximum in terms of risk undertaken and capital employed. Ability to make maximum profit from optimum utilisation of resources by a business concern is termed as "profitability". Profit is an absolute measure of earning capacity.

GROSS PROFIT RATIO

Years	Gross Profit	Sales	Ratio
2007-2008	35.37	3219.50	1.10
2008-2009	31.10	3670.92	0.85
2009-2010	76.17	4363.11	1.75
2010-2011	248.09	6288.02	3.95
2011-2012	316.46	7126.20	4.44

Source: Annual Report

The above table exhibits that the gross profit ratio of the company during the study period. The gross profit ratio is recorded as 1.10 per cent in 2007-08. There is a sudden decrease to 0.85 per cent in 2008-09. It has been increased to 1.75 per cent in 2009-10. Again it has been increased to 3.95 per cent and 4.44 per cent in 2010-11 and 2011-12 respectively. A higher ratio indicates highest profitability.

NET PROFIT RATIO

Years	Net Profit	Sales/Turnover	Ratio
2007-2008	31.77	3219.50	0.99
2008-2009	31.08	3670.92	0.85
2009-2010	88.01	4363.11	2.02
2010-2011	194.58	6288.02	3.09
2011-2012	249.07	7126.20	3.50

Source: Annual Report

The above table is expressed to view that the net profit ratio of the company. There is a fluctuation in net profit ratio during the study period. The net profit ratio is recorded as 0.99 per cent in the year 2007-08. The ratio has been decreased by 0.85 per cent in 2008-09. It has been increased by 2.02 per cent in 2009-10 with a continuous increase of 3.09 per cent and 3.50 per cent in 2010-11 and 2011-12 respectively. Higher the ratio better is the operational efficiency of the business concern.

TURNOVER RATIOS OR ACTIVITY RATIOS

These ratios are also called as performance ratios. Activity ratios highlight the operational efficiency of the business concern. The term operational efficiency refers to effective, profitable and rational use of resources available to the concern. In order to examine the judicious utilisation of resources as well as the wisdom and farsightedness in observing the financial policies lay down in this regard, certain ratios are computed and they are collectively called turnover or activity or performance ratios.

DEBTORS VELOCITY RATIO

Years	Debtors	Sales/Turnover	Ratio
2007-2008	87.86	3219.50	9.96
2008-2009	181.56	3670.92	18.05
2009-2010	220.31	4363.11	18.43
2010-2011	270.62	6288.02	15.71
2011-2012	234.07	7126.20	11.99

Source: Annual Report

The above table expressed the debtors' velocity ratio of the company over the study period. The ratios are fluctuating during the study period which is not less than 9.96 days and not more than 18.43 days over the study period. It is recorded as 9.96 days in 2007-08. There is an increase in 2008-09 and 2009-10 as 18.05 days and 18.43 days. There is a fall in 2010-11 to 15.71 days with a continuous decrease to 11.99 days in 2011-12.

CREDITORS VELOCITY RATIO

Years	Creditors	Net Credit Purchases	Ratio
2007-2008	505.76	2445.51	75.49
2008-2009	550.34	2783.39	72.17

2009-2010	667.21	3137.35	77.62
2010-2011	885.19	4613.91	70.03
2011-2012	737.70	5132.28	52.46

Source: Annual Report

The above table expose to view that the creditors' velocity ratio during the period of study. It is clearly mentioned that the ratio is not less than 52.46 days and not more than 77.62 days in a study period. It has been recorded as 75.49 days in 2007-08 and it is reduced to 72.17 days in 2008-09. Again there has been a hike of 77.62 days in 2009-10 and it reduced to 70.03days in 2010-11. The ratio suddenly reduced to 52.46 days in 2011-12. It indicates the number of times the payables rotate in a year.

SOLVENCY OR FINANCIAL RATIOS

Solvency of financial ratios includes all ratios which express financial position of the concern. Financial ratios are calculated on the basis of items of the balance sheet. Therefore, they are also called balance sheet ratios. Financial position may mean differently to different persons interested in the business concern. Creditors, banks, management, investors and auditors have different views about financial position. The term financial position generally refers to short-term and long-term solvency of the business concern, indicating safety of different interested parties. Financial ratios are also analysed to find judicious use of funds. The significant financial ratios are classified as short-term solvency ratios and long-term solvency ratio.

SHORT-TERM SOLVENCY RATIO

CURRENT RATIO

Years	Current Assets	Current Liabilities	Ratio
2007-2008	774.79	566.75	1.37
2008-2009	893.67	615.83	1.45
2009-2010	965.19	734.08	1.32
2010-2011	1201.55	977.17	1.23
2011-2012	1078.30	1345.18	0.80

Source: Annual Report

The above table expose to view that the ratios of current asset and current liability of the company. In the year 2007-2008 the current ratio was 1.37, and it is increased by 1.45 in the year 2008-2009. It has been continuously reduced in the current ratio 1.32, 1.23 and 0.80 in the year 2009-10, 2010-11 and 2011-2012 respectively. There is no mark of an ideal ratio of 2:1. It clearly shows that the position of the company either poor current assets maintenance or the increase of the current liabilities.

LIQUID RATIO

Years	Liquid Assets	Liquid Liabilities	Ratio
2007-2008	369.41	566.75	0.65
2008-2009	573.12	615.83	0.93
2009-2010	675.46	734.08	0.92
2010-2011	673.63	977.17	0.69
2011-2012	493.74	1345.18	0.37

Source: Annual Report

The liquid ratio table depicts that the position of liquid asset and liquid liability of the company. In the year 2007-2008 the liquid ratio was 0.65, and it has been increasing to 0.93 in the year 2008-2009. And suddenly it has been decrease to 0.92, 0.69 and 0.37 respectively in the year 2009-2010, 2010-2011 and 2011-2012. Thus, it is concluded that, the liquid liability is greater than the liquid asset during the study period.

LONG-TERM SOLVENCY RATIO

DEBT- EQUITY RATIO

Years	Debt	Equity	Ratio
2007-2008	666.34	821.58	0.81
2008-2009	905.98	810.16	1.12
2009-2010	1003.29	865.30	1.16
2010-2011	785.42	999.41	0.79
2011-2012	479.93	1169.30	0.41

Source: Annual Report

The debt equity positions of the company were fluctuating during the study period. In the year 2007-08 the debt equity ratio were recorded as 0.81 per cent. There is a hike in the ratio 1.12 per cent and 1.16 per cent in 2008-09 and 2009-10 respectively. The ratio has been fall down to 0.79 per cent and 0.41 per cent in 2010-11 and 2011-12 respectively.

FINDINGS

♣ The gross profit ratio is recorded as 1.10 per cent in 2007-08. There is a sudden decrease to 0.85 per cent in 2008-09. It has been increased to 1.75 per cent in 2009-10. Again it has been increased to 3.95 per cent and 4.44 per cent in 2010-11 and 2011-12 respectively. A higher ratio indicates highest profitability.

♣ There is a fluctuation in net profit ratio during the study period. The net profit ratio is recorded as 0.99 per cent in the year 2007-08. The ratio has been decreased by 0.85 per cent in 2008-09. It has been increased by 2.02 per cent in 2009-10 with a continuous increase of 3.09 per cent and 3.50 per cent in 2010-11 and 2011-12 respectively. Higher the ratio better is the operational efficiency of the business concern.

♣The debtor's velocity ratios are fluctuating during the study period which is not less than 9.96 days and not more than 18.43 days over the study period. It is recorded as 9.96 days in 2007-08. There is an increase in 2008-09 and 2009-10 as 18.05 days and 18.43 days. There is a fall in 2010-11 to 15.71 days with a continuous decrease to 11.99 days in 2011-12.

♣ It is clearly mentioned that the creditors' velocity ratio is not less than 52.46 days and not more than 77.62 days in a study period. It has been recorded as 75.49 days in 2007-08 and it is reduced to 72.17 days in 2008-09. Again there has been a hike of 77.62 days in 2009-10 and it reduced to 70.03days in 2010-11. The ratio suddenly reduced to 52.46 days in 2011-12. It indicates the number of times the payables rotate in a year.

♣ In the year 2007-2008 the current ratio was 1.37, and it is increased by 1.45 in the year 2008-2009. It has been continuously reduced in the current ratio 1.32, 1.23 and 0.80 in the year 2009-10, 2010-11 and 2011-2012 respectively. There is no mark of an ideal ratio of 2:1. It clearly shows that the position of the company either poor current assets maintenance or the increase of the current liabilities.

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SUGGESTIONS

♣ The current ratio is less than the ideal ratio, the effective measures are to be taken to retain the inventories and other receivables accounts of the company

♣ The Company must make the use of effective cost control methods for further growth for the benefit of the real owners.

♣ The Company may further increase the sales and other training activities to improve the profitability position.

CONCLUSION

It is concluded that the above mentioned suggestions may be considered for the effective and efficient financial performance of TVS Motor Company Limited. The company may maintain the ideal ratio of current asset and current liabilities. The company maintain the performance and further improve the efficiency level.

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