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An Evaluation Of Tata Motors' Financial Achievements And Challenges

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Abstract:

Financial analysis is essential for all concerns to withstand and achieve their objectives for a long period. Tata motors private limited is one of the widely well-known manufacturing industries in India. Investors are also showing keen interest in this company. This article aims to provide an insight into the financial achievements and challenges of Tata motors. For this purpose, financial indicators, key ratios on financial and cash flow statements, and capital structures are identified and analysed. Moreover, econometric tools of multiple regression are used to set the model fit and test the hypotheses. The results of the analysis are expected to reveal the strengths and weaknesses of Tata motors' financial performance and suggest some recommendations for improvement.”

Keywords

Financial Indicators – Financial Performance- Financial achievements and Challenges
Introductions

Finance is the lifeblood of all businesses irrespective of sectors or industries. Each stage in the process of an activity is carried out successfully only based on the finance. Men, material, and money are core to process any activity. Among them, money is playing a vital role on men and material and all others. Tata Motors Limited, a USD 37 billion organisation, is a leading global automobile manufacturer with a portfolio that covers a wide range of cars, SUVs, buses, trucks, pickups and defence vehicles. The scope of this research paper is to evaluate the financial performance and challenges that the company is facing in the forthcoming years, which will give an overview of the industry to investors, the competitive companies, and to Tata Motors itself. Financial ratios and statistical tools are used to fulfil the scope of this paper. The data for the analysis are collected from the last five financial years, including the current financial year.

Objectives:

1. To analyse the financial performance of Tata Motors for the five financial years: Data from the annual reports of Tata Motors
2. To find the financial achievements and challenges of Tata Motors.

Study Period:

Financial Year Starting from April 2018 to March 2019, April 2019 to March 2020, April 2020 to March 2021, April 2021 to March 2022 and April 2022 to March 2023.

Tools used:

** Accounting Ratios

** SWOT Analysis

Company Investment Decisions and capital structure

Table : 1 Capital Expenditure Ratios of Tata Motors: A Comparative Analysis of Cash Flow, Income, and Revenue

| Year | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|--|-----------|-----------|-----------|-----------|-----------|
| Capital Expenditure to Operating Cash flow | 1.87 | 1.12 | 0.70 | 1.06 | 0.51 |
| Capital Expenditure to Operating Income | --- | --- | --- | 0.09 | 0.08 |
| Capital Expenditure to Revenue | 0.12 | 0.11 | 0.08 | 0.05 | 0.06 |

Source: Computed- Tata's Financial Statements.

- The ratio measures how much cash a company spends on its fixed assets per unit of cash it earns from its operations. A lower ratio means more cash generation and higher profitability and liquidity. A higher ratio means less cash generation and lower profitability and liquidity. Tata Motors has lowered its ratio from 1.87 to 0.51 in the last five years, which means it has improved its cash flow efficiency and reduced its external financing needs.
- The ratio measures how much income a company spends on its fixed assets per unit of income it earns from its operations. A lower ratio means more income generation and higher profitability and return on investment. A higher ratio means less income generation and lower profitability and return on investment. Tata Motors has kept its ratio low and stable at 0.09 and 0.08 in the last two years, which means it has achieved a high and consistent profitability and return on investment from its capital spending
- The ratio measures how much revenue a company spends on its fixed assets per unit of revenue it earns from its sales. A lower ratio means more revenue generation and higher efficiency and profitability. A higher ratio means less revenue generation and lower efficiency and profitability. Tata Motors has lowered its ratio from 0.12 to 0.06 in the last five years, which means it has increased its revenue growth and reduced its capital intensity.

Overall Tata Motors has improved its capital spending efficiency and profitability over the last five years by lowering its capital expenditure ratios.

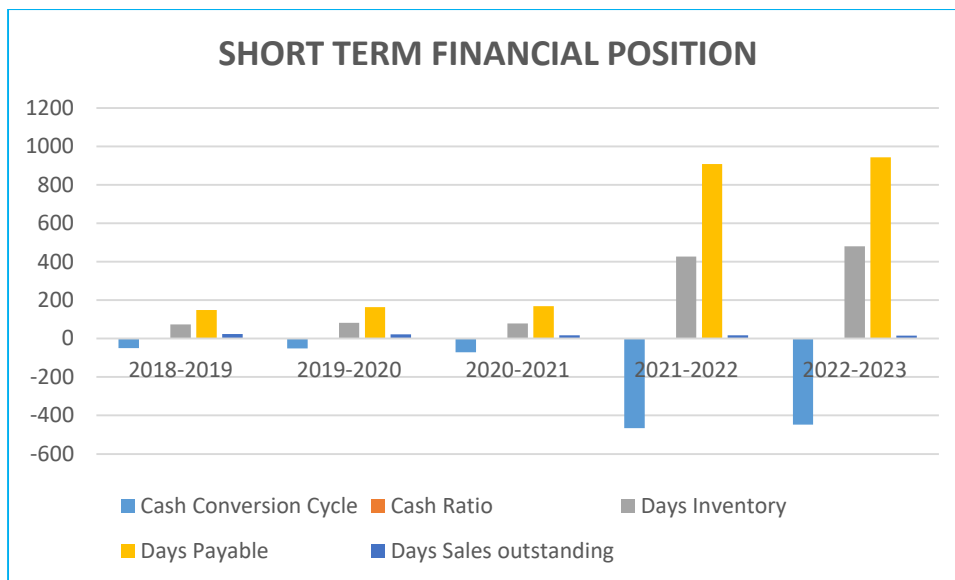
Table 2: SHORT TERM FINANCIAL POSITION

| Years | Cash Conversion Cycle | Cash Ratio | Days Inventory | Days Payable | Days Sales outstanding |
|-----------|-----------------------|------------|----------------|--------------|------------------------|
| 2018-2019 | -50.08 | 0.28 | 73.94 | 149.36 | 24.54 |
| 2019-2020 | -50.52 | 0.32 | 82.08 | 163.80 | 22.20 |
| 2020-2021 | -71.27 | 0.41 | 79.70 | 168.32 | 17.35 |
| 2021-2022 | -465.14 | 0.42 | 427.12 | 909.11 | 16.85 |
| 2022-2023 | -446.68 | 0.36 | 480.65 | 942.72 | 15.39 |

Source: Computed – Tata’s Financial Statements

- The cash conversion cycle measures how long a company takes to convert its inventory and other resources into cash. A lower cycle means faster cash conversion and higher liquidity. A higher cycle means slower cash conversion and lower liquidity. Tata Motors has a negative cycle for all the years, which means it pays its suppliers later than it collects cash from its customers. This can indicate good cash management and high bargaining power. Tata Motors has a drastic increase in its cycle from -71.27 days to -465.14 days in the last two years, which means it takes longer to sell its inventory and collect cash from its customers. This can indicate challenges in inventory management and sales performance.
- The cash ratio measures how much cash and cash equivalents a company has to pay its current liabilities. A higher ratio means more cash availability and higher liquidity. A lower ratio means less cash availability and lower liquidity. Tata Motors has a low ratio for all the years, which means it relies on other current assets to pay its current liabilities. This can indicate a low liquidity and a high risk of default. Tata Motors has increased its ratio from 0.28 to 0.42 in the last four years, and then decreased it to 0.36 in the last year. This can indicate that it has improved its cash position and reduced its dependence on other current assets in the recent years, which may enhance its liquidity and solvency
- The days inventory measures how long a company takes to sell its inventory. A lower days inventory means faster inventory turnover and higher efficiency and profitability. A higher days inventory means slower inventory turnover and lower efficiency and profitability. Tata Motors has a high days inventory for all the years, which means it takes a long time to sell its inventory. This can indicate a low efficiency and profitability. Tata Motors has increased its days inventory from 73.94 to 480.65 in the last five years, which means it has faced some difficulties in selling its inventory in the recent years. This can affect its cash flow and profitability.
- The days payable measures how long a company takes to pay its suppliers. The days sales outstanding measures how long a company takes to collect cash from its customers. They are part of the cash conversion cycle, which measures how long a company takes to convert its inventory and other resources into cash. A lower days payable and days sales outstanding means faster payment and collection and higher liquidity and efficiency. A higher days payable and days sales outstanding means slower payment and collection and lower liquidity and efficiency. Tata Motors has a high days payable and days sales outstanding for all the years, which means it takes a long time to pay its suppliers and collect cash from its customers. This can indicate a low liquidity and efficiency. Tata Motors has increased its days payable and decreased its days sales outstanding in the recent years, which means it has improved its cash management and bargaining power with its suppliers and customers.
- Tata Motors has a low liquidity and a high efficiency in managing its cash conversion cycle, but it has faced some challenges in selling its inventory and generating revenue in the recent years. Tata Motors has improved its cash position and reduced its dependence on other current assets in the recent years, but it still has a low cash ratio and a high risk of default.

Chart 1



SWOT

A SWOT analysis is a strategic tool that evaluates the strengths, weaknesses, opportunities, and threats of a company or a project. Based on the short-term financial ratios of Tata Motors for the last five financial years, I can make the following SWOT analysis:

Strengths:

- Tata Motors has a negative cash conversion cycle for all the years, which means that it pays its suppliers later than it collects cash from its customers. This indicates that it has a good cash management and a high bargaining power with its suppliers.
- Tata Motors has decreased its days sales outstanding from 24.54 in 2018-2019 to 15.39 in 2022-2023, which means that it has improved its collection efficiency and reduced its credit risk with its customers.
- Tata Motors has increased its cash ratio from 0.28 in 2018-2019 to 0.42 in 2021-2022, which means that it has improved its cash position and reduced its dependence on other current assets to pay its current liabilities.

Weaknesses:

- Tata Motors has a low cash ratio for all the years, ranging from 0.28 to 0.42, which means that it has a low liquidity and a high risk of default. It relies on other current assets, such as accounts receivable and inventory, to pay its current liabilities, which may not be easily convertible into cash.
- Tata Motors has a high day's inventory for all the years, ranging from 73.94 to 480.65, which means that it has a low inventory turnover and a low efficiency and profitability. It takes a long time to sell its inventory, which may indicate a lower demand, excess inventory, and higher inventory costs.
- Tata Motors has a high day's payable for all the years, ranging from 149.36 to 942.72, which means that it has a low payment efficiency and a low solvency. It takes a long time to pay its suppliers, which may indicate a lower creditworthiness, higher interest expenses, and lower supplier satisfaction.

Opportunities:

- Tata Motors can improve its liquidity and solvency by increasing its cash ratio and reducing its days payable. It can do this by generating more cash from its operations, reducing its capital expenditures, and negotiating better payment terms with its suppliers.
- Tata Motors can improve its efficiency and profitability by reducing its days inventory and increasing its inventory turnover. It can do this by optimizing its inventory management, aligning its production with the market demand, and adopting lean manufacturing techniques.

- Tata Motors can improve its revenue growth and market share by expanding its product portfolio, entering new markets, and enhancing its customer service. It can do this by investing in research and development, innovation, and quality improvement.

Threats:

- Tata Motors faces a high competition from other automobile manufacturers, such as Maruti Suzuki, Mahindra & Mahindra, and Hyundai Motors, who may offer better products, prices, and services to the customers. It also faces a threat from new entrants, such as electric vehicle makers, who may disrupt the industry with new technologies and business models.
- Tata Motors faces a high uncertainty and volatility in the macroeconomic environment, such as changes in the exchange rates, interest rates, inflation rates, and tax rates, which may affect its costs, revenues, and profitability. It also faces a high risk of regulatory changes, such as emission norms, safety standards, and consumer protection laws, which may affect its operations and compliance.
- Tata Motors faces a high challenge in meeting the changing customer preferences and expectations, such as environmental awareness, social responsibility, and digital connectivity, which may affect its brand image and customer loyalty. It also faces a high pressure in maintaining its quality and reputation, as any product defect, recall, or lawsuit may affect its customer satisfaction and trust.

Table 3: SWOT Analysis

| SWOT | Analysis |
|---------------|--|
| Strengths | Negative cash conversion cycle for all the years - Decreased days sales outstanding from 24.54 to 15.39 in the last five years - Increased cash ratio from 0.28 to 0.42 in the last four years |
| Weaknesses | - Low cash ratio for all the years - High days inventory for all the years - High days payable for all the years |
| Opportunities | Increase cash ratio and reduce days payable by generating more cash from operations, reducing capital expenditures, and negotiating better payment terms with suppliers. Reduce days inventory and increase inventory turnover by optimizing inventory management, aligning production with market demand, and adopting lean manufacturing techniques. Increase revenue growth and market share by expanding product portfolio, entering new markets, and enhancing customer service |
| Threats | - High competition from other automobile manufacturers and new entrants - High uncertainty and volatility in the macroeconomic environment and regulatory changes - High challenge in meeting the changing customer preferences and expectations and maintaining quality and reputation |

Negative cash conversion cycle for all the years
 Decreased days sales outstanding from 24.54 to 15.39 in the last five years
 Increased cash ratio from 0.28 to 0.42 in the last four years

SWOT Analysis

Low cash ratio for all the years - High days inventory for all the years - High days payable for all the years

Table4: Long Term Financial Position-Ratios

| Year | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Debt to Assets | 0.37 | 0.41 | 0.44 | 0.46 | 0.42 |
| Debt to EBITDA | -37.09 | 7.57 | 7.52 | 5.54 | 3.66 |
| Debt to Equity | 2.00 | 2.19 | 2.90 | 3.37 | 3.08 |
| Debt to Revenue | 0.37 | 0.50 | 0.59 | 0.54 | 0.40 |
| Equity to assets | 0.19 | 0.19 | 0.15 | 0.14 | 0.14 |
| EV to EBIT | -4.96 | -30.30 | -55.11 | 111.45 | 19.00 |
| EV to EBITDA | -43.35 | 6.52 | 10.21 | 9.48 | 6.62 |
| EV to Free Cash flow | -7.86 | -36.32 | 22.49 | -290.51 | 14.60 |
| EV to Revenue per share | 0.43 | 0.43 | 0.80 | 0.92 | 0.73 |

The table provided contains financial ratios for Tata Motors for the years 2018-2019 to 2022-2023. These ratios are used to assess a company's financial health and performance.

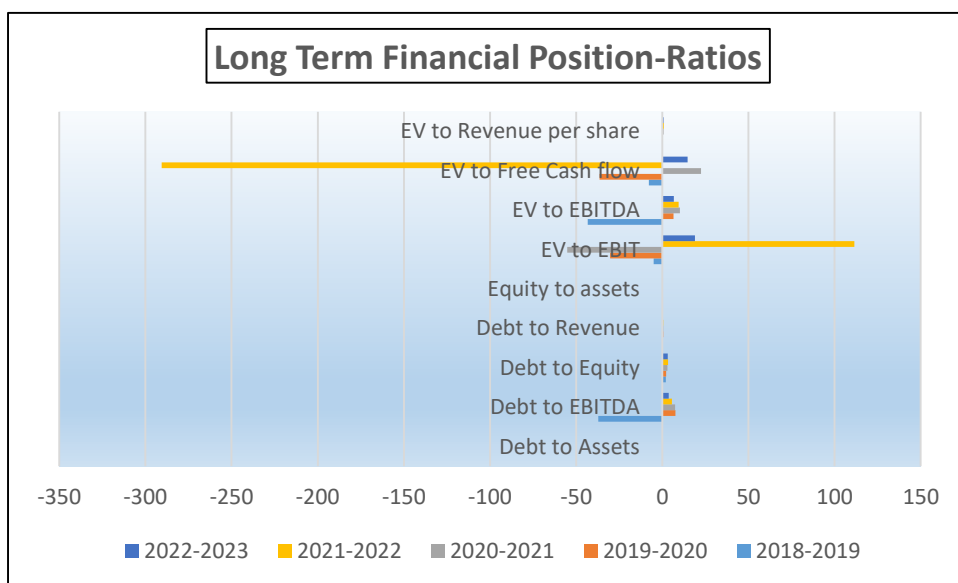
- **Debt to Assets:** This ratio measures the proportion of a company's assets that are financed by debt. Over the years, Tata Motors' debt-to-assets ratio has remained relatively stable, ranging from 0.37 to 0.46. A lower ratio generally indicates a more favorable financial position, as it suggests that a smaller proportion of the company's assets are financed by debt.
- **Debt to EBITDA:** This ratio indicates the number of years it would take for a company to repay its debt using its earnings before interest, taxes, depreciation, and amortization (EBITDA). Negative values, such as -37.09 in 2018-2019, suggest that the company's EBITDA is negative. In recent years, Tata Motors' debt-to-EBITDA ratio has improved, indicating better debt management.
- **Debt to Equity:** This ratio compares a company's total debt to its shareholders' equity. A higher ratio suggests that a larger proportion of the company's assets are financed by debt. Over the years, Tata Motors' debt-to-equity ratio has increased from 2.00 to 3.08, indicating a higher reliance on debt financing.
- **Debt to Revenue:** This ratio shows the proportion of a company's revenue that is used to service its debt. Tata Motors' debt-to-revenue ratio has fluctuated between 0.37 and 0.59. A lower ratio generally indicates a more favorable financial position, as it suggests that a smaller proportion of the company's revenue is allocated to debt servicing.
- **Equity to Assets:** This ratio measures the proportion of a company's assets that are financed by shareholders' equity. Over the years, Tata Motors' equity-to-assets ratio has remained relatively stable, ranging from 0.19 to 0.15. A higher ratio generally indicates a more favorable financial position, as it suggests that a larger proportion of the company's assets are financed by shareholders' equity.
- **EV to EBIT:** This ratio compares a company's enterprise value (EV) to its earnings before interest and taxes (EBIT). Tata Motors' EV-to-EBIT ratio has fluctuated significantly, ranging from -55.11 to

111.45. A higher ratio suggests that the company's enterprise value is relatively high compared to its EBIT.

- **EV to EBITDA:** This ratio compares a company's enterprise value (EV) to its earnings before interest, taxes, depreciation, and amortization (EBITDA). Tata Motors' EV-to-EBITDA ratio has fluctuated between 6.52 and 10.21. A higher ratio suggests that the company's enterprise value is relatively high compared to its EBITDA.
- **EV to Free Cash Flow:** This ratio compares a company's enterprise value (EV) to its free cash flow. Tata Motors' EV-to-free-cash-flow ratio has fluctuated between -36.32 and 22.49. A higher ratio suggests that the company's enterprise value is relatively high compared to its free cash flow.
- **EV to Revenue per Share:** This ratio compares a company's enterprise value (EV) to its revenue per share. Tata Motors' EV-to-revenue-per-share ratio has fluctuated between 0.43 and 0.80. A higher ratio suggests that the company's enterprise value is relatively high compared to its revenue per share.

Based on the provided table, Tata Motors' long-term financial position appears to be relatively good in 2022-2023 compared to the other years. The company has shown improvements in its debt-to-EBITDA ratio, debt-to-equity ratio, and EV-to-EBIT ratio.

Chart- 2



Conclusions:

This evaluation of Tata Motors' financial achievements and challenges provides valuable insights into the company's financial performance over the past five years.

**Financial Achievements: **

1. Tata Motors has significantly improved its capital spending efficiency and profitability over the last five years, as evident from the decreasing capital expenditure ratios. This indicates improved cash flow efficiency and reduced external financing needs. 2. The company has maintained a negative cash conversion cycle, reflecting its ability to pay suppliers later than it collects cash from customers. This demonstrates strong cash management and bargaining power with suppliers. 3. Tata Motors has increased its cash ratio and reduced its dependence on other current assets to pay current liabilities, indicating improved cash position and liquidity.

**Financial Challenges: **

1. Despite the achievements, Tata Motors still faces some financial challenges. It has a low cash ratio, suggesting a high risk of default. The company relies on other current assets to meet its current liabilities, which may not be easily convertible into cash. 2. High days inventory and days payable indicate challenges in selling inventory efficiently and a slower payment cycle to suppliers. These factors may affect cash flow and profitability.

****SWOT Analysis: ****

Based on the financial ratios, a SWOT analysis highlights the following:

****Strengths: ****

- Negative cash conversion cycle and improved days sales outstanding demonstrate good cash management and efficient collection processes. - Increased cash ratio indicates enhanced liquidity. - The company has improved its short-term financial position in recent years.

****Weaknesses: ****

- Low cash ratio and high reliance on other current assets for payment of current liabilities indicate liquidity and solvency concerns. - High days inventory and days payable reflect inefficiencies in inventory management and supplier payment processes.

****Opportunities: ****

- Tata Motors can improve liquidity by generating more cash from operations and negotiating better payment terms with suppliers. - Efficiency and profitability can be enhanced by optimizing inventory management and aligning production with market demand. - Expanding the product portfolio, entering new markets, and enhancing customer service can lead to increased revenue and market share.

****Threats: ****

- High competition in the automobile industry and potential disruption from new entrants pose challenges. - Macroeconomic uncertainties and regulatory changes can impact costs, revenues, and profitability. - Meeting changing customer preferences, maintaining quality, and brand reputation are crucial in the face of a dynamic market.

Overall, Tata Motors has made notable progress in its financial performance, but it also faces significant challenges that require attention. The company has opportunities for improvement in its liquidity, efficiency, and market expansion. Understanding these financial dynamics is essential for investors and stakeholders interested in the company's long-term prospects.

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