IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF TATA MOTORS LIMITED

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Abstract: The current study is an investigation on the financial performance of Tata Motors. Companies can assess their performance over the previous years through financial analysis, recognising their strengths and weaknesses and working to improve them. This analysis was carried out over the five years of the balance sheet and profit and loss account, 2018–2022. Secondary data obtained from the TATA MOTORS Company's annual report is used in this study. Therefore, it is important to assess financial performance in order to understand where businesses stand in the market and how they can strengthen their future growth and financial stability.

Index Terms - Financial Performance, Ratio Analysis, Profitability Ratio, Liquidity Ratio, Solvency Ratio.

I. INTRODUCTION

A financial statement is an official record of a person's, a company's, or another entity's financial transactions and standing. It is laid down in a clear and structured format for ease of understanding. In the preparation of the final accounts of a firm, the financial statements display the net results for the given year. They play a vital role in allowing a financial statement user to understand a firm's effects for a given year. Trade creditors, shareholders, investors, employees, and management are a few stakeholders in a business. Understanding financial performance is essential since it influences how the business makes decisions. Financial statement analysis gathers information from accounting and financial accounts to identify a company's operating and financial characteristics. Such research is to ascertain the management of the company's effectiveness and performance, as shown by the financial records and reports.

II. STATEMENT OF THE PROBLEM

A financial performance analysis accurately establishes the relationship between the items on the balance sheet and the profit and loss account to identify the company's strengths and weaknesses. A well-planned capital structure, investments, and distribution are necessary for the firm to operate efficiently. Any business that doesn't follow good cost-controlling practices and doesn't use scientific tools for distribution and investment when managing funds will only last over the short term. A timely evaluation of the firm's performance must be considered because finance serves as an enterprise's lifeline and is its primary engine. This study is being carried out to learn more about the financial position and performance of TATA Motors Limited.

III. OBJECTIVES

- To analyse the profitability, liquidity, and solvency position of TATA Motors using ratio analysis for past five years.
- To provide findings and suggestions to enhance the performance.

IV. SCOPE OF THE STUDY

The study is based on the accounting information of TATA Motors Limited. The study covers the period of 2017-18, 2018-19, 2019-20, 2020-21 and 2021-2022 for analyzing the financial statement such as income statements and balance sheets. The scope of the study involves the various factors that affect the company's financial status. The data of the past five years are taken into account for the study. The performance is compared within those periods.

V. RESEARCH METHODOLOGY

NATURE OF DATA

The data needed for the study was gathered from secondary sources, including yearly reports, journals, the internet, and other relevant sources.

TOOL USED

- Ratio Analysis.

PERIOD OF STUDY

The study covers a period of 5 years covering a period from 2018 – 2022 in order to study the financial performance of the company.

VI.LIMITATIONS OF THE STUDY

- Only the latest five years' worth of financial documents were examined, which does not accurately reflect the company's overall profitability.
- They don't always accurately reflect the current situation because financial statements used for financial analysis are created using the going concern concept.
- It merely takes financial considerations. Human behaviour, interpersonal interactions, and other non-financial factors are not taken into account.

VII.REVIEW OF LITERATURE

Dewan M.d. Zahurul Islam(2020), A study on financial performance SMEs Baes on this evidence, we suggest that entrepreneurial efficacy will be able to help entrepreneurs energize to work hard with a dedicated focus on their goals, thus maintain their financial performance even the current pandemic.

Dr. Shobha Edward (2019), this study concentrates on "Financial Performance Analysis with Reference to ITC Limited, Chennai." This study's primary Objective is to evaluate the financial situation of the company. This study concludes that the company has an excellent liquidity position and does not delay its obligation in the case of its creditors and debtors.

VIII.RATIO ANALYSIS

TABLE 1 - LIQUIDITY RATIOS FOR 2017 – 2022

Current Ratio = Current Assets / Current Liabilities.

Quick Ratio = (Current Assets – Inventories)/ Current Liabilities.

Cash Ratio = Cash and Cash Equivalents / Current Liabilities.

Financial Years	Current Ratio	Quick Ratio	Cash Ratio
2017-2018	0.62	0.38	0.03
2018-2019	0.58	0.37	0.06
2019-2020	0.53	0.38	0.14
2020-2021	0.60	0.43	0.16
2021-2022	0.58	0.44	0.10
Average	0.58	0.40	0.10

From the given data, we can infer that the current ratio has been fluctuating over the years, ranging from 0.53 to 0.62. The average current ratio over the period of five years is 0.58, Overall, the data suggests that the company's ability to pay off its short-term liabilities with its current assets has been fluctuating over the years, but the average current ratio is relatively stable.

The quick ratio has been relatively stable over the five-year period, with values ranging from 0.37 to 0.44. The average quick ratio for the period is 0.40, which indicates that the company has had enough liquid assets to meet its short-term obligations on average. The quick ratio values suggest that the company has been able to maintain a consistent liquidity position over the years.

The average cash ratio over the 5-year period is 0.10, which suggests that the company has enough cash and cash equivalents to cover 10% of its short-term liabilities on average. Looking at the trend over the 5-year period, the cash ratio increased from 0.03 in 2017-2018 to 0.16 in 2020-2021, before decreasing slightly to 0.10 in 2021-2022. This suggests that the company's cash position improved significantly from 2017-2021, but may have declined slightly in the most recent year.

TABLE 2 - SOLVENCY RATIOS FOR 2017 – 2022

Debt to Equity Ratio = Total Debt / Total Equity.

Debt-to-Asset Ratio = Total Liabilities / Total Assets.

Interest Coverage Ratio = Earnings Before Interest and Taxes (EBIT) / Interest Expense.

Financial Years	Debt to Equity Ratio	Debt to Asset Ratio	Interest Coverage Ratio
2017-2018	1.94	0.66	1.13
2018-2019	1.75	0.64	145.07
2019-2020	2.40	0.71	-233.98
2020-2021	2.41	0.71	-93.19
2021-2022	2.20	0.69	-81.23
Average	2.14	0.68	-52.44

The debt to equity ratio has been consistently high over the past five years, with a average of 2.14. This suggests that the company has been relying heavily on debt financing to support its operations.

The Debt to Asset Ratio has remained fairly consistent over the past five years, with the average of 0.68. The Debt to Asset Ratio indicates that the company has maintained a consistent financing structure over the past five years and has not significantly increased its level of leverage.

The average Interest Coverage Ratio for the company over the given period is -52.44, which is significantly negative. This means that, on average, the company's earnings were not sufficient to cover its interest expenses.

TABLE 3 - PROFITABILITY RATIOS

ROA = Net Income / Total Assets.

ROE = Net Income / Shareholders' Equity.

Asset Turnover Ratio = Revenue / Total Assets.

EPS = Net Income – Dividend to preferred shareholders/ Average outstanding share.

Net Profit Margin = (Net Profit / Total Revenue) x 100%.

Profit before tax margin = (Profit before tax / Total revenue) x 100.

Financial Years	Return on Asset Ratio	Return on Equity Ratio	Asset Turnover Ratio	Basic Earnings Per share	Net Profit Margin	Profit before Tax Margin
2017-2018	-1.75	-5.13	99.36	-3.05	-1.76	-1.61
2018-2019	3.32	9.12	113.62	5.94	2.92	3.47
2019-2020	-11.65	-39.64	70.18	-21.06	-16.59	-16.22
2020-2021	-3.68	-12.57	46.38	-6.59	-7.94	-7.54
2021-2022	-2.18	-6.98	73.97	-3.63	-2.94	-3.47
Average	-3.19	-11.04	80.70	-5.68	-5.26	-5.08

The return on asset ratio is negative in all the years except for 2018-2019 where it is 3.32. The average return on asset ratio for the 5-year period is negative at -3.19, indicating that on average the company is not generating profits from its assets. The return on asset ratio of the company is low and highly volatile, which suggests that the company needs to focus on improving its efficiency in generating profits from its assets.

The average ROE ratio for the five years is negative at -11.04%, which implies that the company, on average, has not been able to generate profits from shareholder investments. This suggests that the company has performed poorly in generating profits from shareholder investments in most years.

The asset turnover ratio has fluctuated significantly over the past five years, ranging from 46.38 to 113.62. The average asset turnover ratio is 80.70. It can be inferred that the company's ability to utilize its assets to generate revenue has varied significantly over the past five years, and it is important for the company to monitor.

The Average value of the EPS over the period is -5.68. The negative values of the EPS for most of the years indicate that the company has made losses in those years. The maximum loss was made in the financial year 2019-2020, where the EPS was -21.06. However, in the financial year 2018-2019, the company had a positive EPS of 5.94, indicating that it made a profit in that year.

The Average net profit margin is -5.26%, indicating that the company has not been able to generate significant profits during these years. The negative net profit margin for 2017-2018, 2019-2020, 2020-2021, and 2021-2022 suggests that the company has incurred losses in these years. However, the positive net profit margin of 2.92% in 2018-2019 indicates that the company was able to generate a profit in that year.

The Profit before Tax Margin has been negative in all the years except for 2018-2019. The Average Profit before Tax Margin is -5.08%, which indicates that the company has been making losses in most of the years. The data suggests that the company has been struggling to maintain a positive profit margin in recent years.

IX.FINDINGS

- The average current ratio over the period of five years is 0.58, which is relatively stable. The data suggests that the company's ability to pay off short-term liabilities with current assets has been fluctuating over the years, but the average current ratio is relatively stable.
- The quick ratio of the company has been relatively stable over the five-year period, with values ranging from 0.37 to 0.44. The average quick ratio for the period is 0.40, which indicates that the company has had enough liquid assets to meet its short-term obligations on average.
- The average cash ratio over the 5-year period is 0.10, suggesting that the company has enough cash and cash equivalents to cover 10% of its short-term liabilities on average. However, without additional context about the company's financial and operational performance, it's unclear what factors may have contributed to these changes.
- The debt to equity ratio has been consistently high over the past five years, with a average of 2.14, indicating that the company has been relying heavily on debt financing to support its operations.
- The Debt to Asset Ratio has remained consistent over the past five years with a average of 0.68 .
- The Debt to Asset Ratio suggests that the company has maintained a consistent financing structure and has not significantly increased its level of leverage.
- The average Interest Coverage Ratio over the given period is significantly negative at -52.44, indicating that the company's earnings were not sufficient to cover its interest expenses. Suggesting inconsistency in the company's ability to meet its interest obligations.
- The Return on Asset Ratio is highly volatile with a average of -3.19. Suggesting that the company needs to improve its efficiency in generating profits from its assets.
- The ROE ratio has been negative in three out of the five financial years, indicating that the company has not been able to generate profits from shareholder investments in those years.
- The Asset Turnover Ratio has fluctuated significantly over the past five years, indicating significant variation in the efficiency of asset utilization. The average asset turnover ratio is 80.70. The data shows significant fluctuations in the company's earnings over the years, with losses being the most common outcome.
- The company has not been able to generate significant profits during the five financial years analyzed, with an average net profit margin of -5.26%. Indicating that the company has been struggling to generate profits with significant variability.
- The Profit before Tax Margin has been negative in all years except for 2018-2019, indicating that the company has been making losses in most years. Indicating that the company has been struggling to maintain a positive profit margin in recent years.

X.SUGGESTIONS

- Improve short-term liquidity: The company needs to focus on improving its current and quick ratios, which have fluctuated over the years, indicating potential liquidity issues.
- Reduce debt burden: The high debt to equity and debt to asset ratios suggest that the company may have a higher financial risk, and it should prioritize reducing its debt burden to improve its financial stability.

- Improve cash management practices: The high variability in the cash ratio values suggests that the company's cash management practices and/or short-term liquidity position are unstable or inconsistent. The company needs to implement better cash management practices to ensure stability.
- Increase profitability: The negative ROA, ROE, net profit margin, and PBT margin indicate that the company needs to improve its profitability. The company should focus on increasing revenues and reducing costs to improve its profitability.
- Improve asset utilization: The fluctuation in the asset turnover ratio indicates significant variation in the efficiency of asset utilization. The company should focus on improving its asset utilization to increase its revenues.
- Reduce losses: The EPS data shows significant fluctuations in the company's earnings over the years, with losses being the most common outcome. The company needs to reduce its losses by improving its revenue generation and cost management.
- Increase interest coverage ratio: The highly negative interest coverage ratio indicates a high risk of default and financial distress due to insufficient earnings to cover its interest expenses. The company needs to increase its interest coverage ratio to improve its financial stability.
- Stabilize financial ratios: The company needs to stabilize its financial ratios, especially the current and quick ratios, by implementing sound financial management practices and policies.
- Increase profitability consistency: The high variability in the ROA, ROE, net profit margin, and PBT margin suggests that the company needs to improve its consistency in generating profits. The company should aim to maintain stable profitability levels over time.
- Monitor financial performance: The company should regularly monitor its financial performance and analyze its financial ratios to identify areas for improvement and make informed business decisions.

XI.CONCLUSION

In conclusion, the study suggests that the company needs to focus on improving its short-term liquidity, reducing its debt burden, and implementing better cash management practices to stabilize its financial ratios and improve its financial performance. The company should also aim to increase its profitability, improve its asset utilization, and reduce its losses. Additionally, the company should regularly monitor its financial performance and identify areas for improvement to make informed business decisions.

XII.REFERENCES

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