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The Assessment of TATA Motor's Financial Performance – a Review Case Study

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ABSTRACT:
The goal of this research was to assess TATA Motor's financial performance from 2015 to 2020. To assess the data, several liquidity measures, solvency ratios, profitability ratios, efficiency ratios, and statistical tools such as the t-test were employed. The results mostly indicated that the company's overall financial performance was satisfactory; the only grey area was the liquidity ratios. The findings also revealed a considerable variation in the company's solvency, general efficiency, and profitability within the time period studied. The findings are based on data from the previous five years, concluding in 2018, and only monetary data was analyzed. The investigation's primary goal was to assess Adidas' financial performance.

I. INTRODUCTION:

Every firm, large or little, requires funding to continue operating. Finance is the lifeblood of any business, and without it, no company can thrive. It is concerned with the management of monetary resources. The firm's affair Finance allows a company to get off and keeps it running. Keeping the company afloat As a result, the importance of finance cannot be questioned. Finance management is a crucial activity that encompasses both short and long-term goals. As well as long-term planning Profit maximization is the goal of any business. Without money, a company will starve and perish. The most powerful industry is finance. Nothing in business can be carried out without this aspect. Financial statements are mostly used to make decisions. They have a significant role in establishing the framework, and managerial conclusions can be reached as a result. The financial statement is the sum of the three business reports. It will include the company's cash flow statement, income statement, and balance sheet. All of data adds up to a comprehensive picture of the company's health. Financial statements are written documents that show a company's financial performance.

Tata Motors has a long history, dating back to 1945 when the company was founded as a locomotive manufacturer. Tata Motors is a division of the Tata Group of Companies. Tata steel, Tata consultancy service, Tata technology, Tata tea, Titan industries, Tata power, Taj hotels, and so on are among the company's various endeavors. Tata Motors, headquartered in Mumbai, India, is a multinational corporation with a 70 percent market share in the domestic commercial vehicle segment. The company is also the world's second largest commercial vehicle manufacturer, fourth largest truck manufacturer, and second largest bus manufacturer.

1.2 THE PROBLEM'S STATEMENT:

Financial statement analysis and interpretation is a common practice for evaluating a company's performance. Every organization must analyze their performance each year in order to gain a foothold in the market. Here is a report on Tata Motors' financial performance. It depicts the company's financial performance and future potential.

II. REVIEW OF LITERATURE:

2.1.1 Analysis of financial statements:

Financial statements are written documents that convey a company's commercial activities and financial performance. The basis for financial statements is generally accepted accounting rules. The process of studying a company's financial statements for the goal of making decisions is known as financial statement analysis. Financial statement analysis is the process of determining a company's financial strength and weaknesses by developing correlations between the financial statements' items. In a nutshell, financial statement analysis is the act of examining and analyzing a company's financial statements in order to make better financial decisions.

2.1.2 Ratio analysis:

is the process of expressing one number in terms of another. It displays how two figures are related numerically. A common method of assessing financial accounts is ratio analysis. It is the systematic application of accounting ratios to the interpretation of financial statements for the purpose of analyzing a company's financial situation and performance.

2.1.3 Different types of ratios:

Liquidity ratio: Liquidity ratios are used to assess a company's liquidity or short-term financial position. These ratios are used to evaluate a company's ability to pay down short-term debt. Creditors and commercial banks that supply short-term loans benefit greatly from these ratios. Current and fast liquidity ratios are the two types of liquidity ratios.

2.1.4 The current asset-to-current-liability ratio:

Is the ratio of current assets to current liabilities. It demonstrates how total current assets and total current liabilities are related. Working capital ratio or banker's ratio are other names for the current ratio. The goal of calculating this ratio is to assess a company's capacity to meet its obligations on schedule. In general, a 2:1 ratio is seen as satisfactory.

2.1.5 The quick ratio:

Depicts the connection between current assets and liabilities. It's also known as the acid test ratio. The goal of calculating this ratio is to assess a company's ability to satisfy short-term obligations on time and without relying on stock sales. The optimal ratio is one to one.

2.1.6 The solvency ratio:

Depicts the relationship between a company's total assets and total liabilities. It assesses a company's financial stability. The term "solvency" refers to a company's ability to pay its external creditors from its overall assets. The total asset to total debt ratio is another name for this. The standard ratio isn't set in stone.

2.1.7 The debt equity ratio:

Is the most widely utilised ratio to determine a company's solvency. This figure depicts the proportion of debt and equity used to fund a company's assets. It encapsulates the debt-to-equity relationship. External - internal equity ratio is another name for it. The common debt-to-equity ratio is 1:1.

2.1.8 Proprietary ratio:

This figure depicts the link between shareholders' funds and total assets. This ratio depicts how much money the shareholders have put into the company's overall assets. 0.5:1 is the optimal ratio.

2.1.9 Fixed asset ratio:

This is an efficiency ratio that shows how effectively a company uses fixed assets to produce revenue. This ratio is computed by dividing net sales by net fixed assets over a year. The standard fixed asset ratio should not be more than one-to-one.

2.1.10 The capital gearing ratio:

Displays the capital structure of a corporation. The quantity of shareholder equity is divided by the fixed cost bearing fund. The equity of common stockholders is calculated as equity minus preferred stock. Long-term loans, bonds, and debentures are examples of fixed-cost bearing funds. This ratio is significant to both the corporation and the investors.

Inventory turnover ratio:

Inventory turnover ratio is a metric that measures inventory liquidity. This metric measures the rate at which inventory is sold. It depicts the link between the average inventory or stock and the cost of goods sold. Merchandise turnover ratio is another name for it. It's calculated by dividing the cost of items sold by the average stock on hand. A ratio of 8 times is often seen as adequate.

The gross profit ratio:

Stated as a percentage, is the ratio of gross profit to sales. The main goal of estimating this ratio is to figure out how efficient a trade or production activity is and to figure out what the selling price should be. The optimal percentage is between 20% and 25%.

III. DATA ANALYSIS & INTERPRETATION:

The term "data analysis" refers to the process of examining all of the information gathered for a study. The study's data is based on financial information. As a result, analysis is often known as financial analysis. Financial analysis is the process of simplifying financial facts in financial statements. It is the process of evaluating a company's profitability and financial soundness by assessing the information contained in its financial statement.

The terms "financial analysis" and "interpretation" are used interchangeably. The word "interpretation" literally means "to explain" or "to explain the meaning of." In the context of financial analysis, interpretation refers to the explanation of the data's significance.

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For the aim of financial data analysis, this study employs ratio analysis. Ratio analysis is an important financial statement analysis tool. It is the most extensively utilised financial analysis technique. Perhaps the first financial instrument designed to evaluate and comprehend financial data analysis was ratio analysis. The numerical link between two figures is shown via ratio analysis. The study's subject was Tata Motors Private Limited. Secondary information was collected from the Tata Motors website. The required data was gathered from the company's annual report for the last five years, from 2015-16 to 2019-20. The sample was selected using simple random sampling.Ratio analysis was used to analyze the data in this study. The study looked at the liquidity ratio, solvency ratio, and profitability ratio. Current ratio, quick ratio, and super quick ratio are all examples of liquidity ratios.

The debt equity ratio, proprietary ratio, and leverage ratio are all part of the solvency ratio. Working capital turnover ratio, fixed asset turnover ratio, and total asset turnover ratio are all activity ratios. Net profit ratio, return on investment, and return on shareholders' funds are all examples of profitability ratios.

Table 1: Current Ratio from 2015-2020

Current ratio=current asset/current liability

Year	Current Asset	Current Liability	Ratio
2015-2016	11961.69	18801.74	0.63
2016-2017	12857.07	21638.35	0.59
2017-2018	15071.66	24318.95	0.61
2018-2019	13329.30	23040.81	0.57
2019-2020	13668.76	25910.82	0.52

[Source: compiled from annual report]

In general, a current-to-capacity ratio of 2:1 is regarded as typical. The corporation fails to achieve the standard ratio, as shown in table 1. The current ratio has fluctuated from 2015-16 to 2019-20.

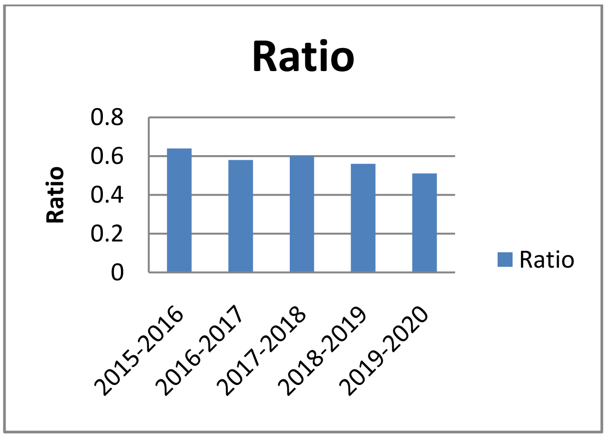

Figure1. Current Ratio From 2015-2020

Table 2: Quick Ratio From 2015-2020 [Source: compiled from annual report]

Quick Ratio = Quick Asset/Current Liability

Quick asset = current asset - inventory

Year	Current Asset	Current Liability	Ratio
2015-2016	51658.09	18807.84	2.75
2016-2017	7304.07	21638.36	0.34
2017-2018	9402.4	24318.96	0.39
2018-2019	8667.3	22950.91	0.37
2019-2020	9836.4	25910.82	0.37

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A Quick ratio of 1:1 is often regarded as good. The quick ratio is just slightly greater than 1 in the financial year 2015-2016, but it is less than 1 the following year, indicating that the company's financial status is unsound. As a result, in order to meet the standard ratio, the corporation must raise its liquid assets.

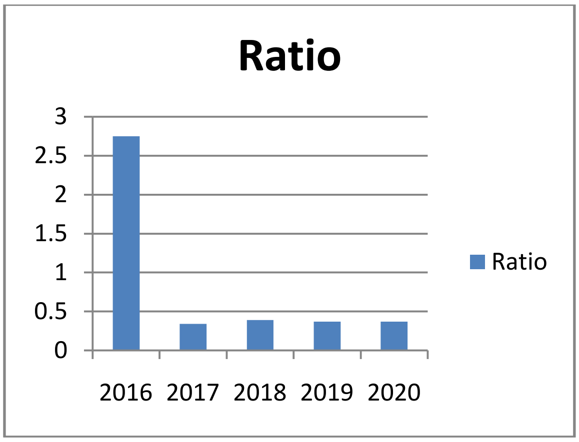

Figure 2. Quick Ratio From 2015-2016

Table 3 Super quick ratio: 2014-2019
Super quick ratio = absolute liquid asset / current liability
Super quick asset = cash +short term investment

Year	**absolute liquid asset**	Current Liability	Ratio
2015-2016	2634.36	18807.84	0.13:1
2016-2017	2774.04	21638.36	0.12:1
2017-2018	3398.3	24318.96	0.13:1
2018-2019	2839.89	22950.91	0.17:1
2019-2020	4517.6	25910.82	0.17:1

A very fast ratio of 0.5:1 is often regarded as optimal. Table 3 shows that the corporation did not achieve the desired ratio in any of the years between 2015-16 and 2019-20. The ratio is showing a trend of fluctuation. To pay off its extremely quick liabilities, the company does not hold a lot of super quick assets.

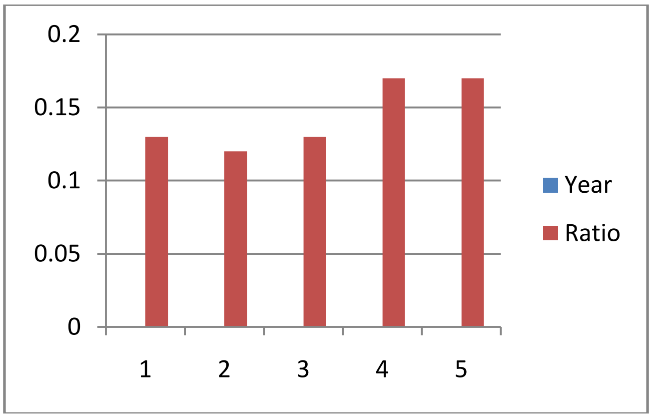

Figure 3. Quick Ratio From 2015-2016

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Table4: Debt Equity Ratio From 2015-2020

Debt Equity Ratio = Total Debt / Equity

Year	debt	equity	Ratio
2015-2016	14812.15	23462.11	0.63:1
2016-2017	16277.32	21265.71	0.76:1
2017-2018	14922.47	20270.98	0.73:1
2018-2019	15906.40	22262.52	0.72:1
2019-2020	18439.50	18487.65	1.00:1

The debt equity ratio is a measure of how much debt and equity are used to fund a company's assets. A debt-to-equity ratio of 1:1 is generally regarded typical. Table 4.4 shows that the corporation did not meet the standard ratio from 2015-2016 to 2018-2019, but did so in 2019-2020. It demonstrates that the corporation uses borrowed funds more frequently than its own funds. The ratio is showing a trend of fluctuation.

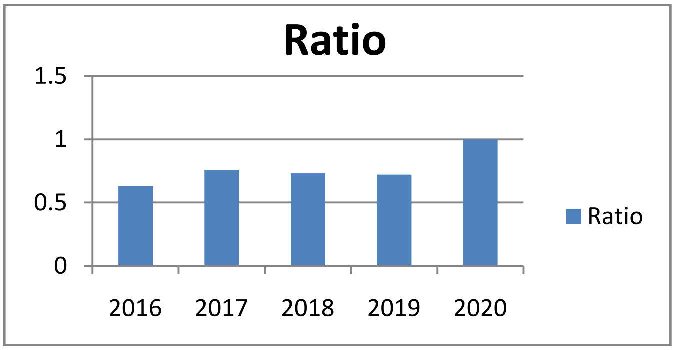

Figure 4. Debt Equity Ratio From 2015-2020

Table 5: Proprietary Ratio From 2015-2020

Proprietary Ratio = Share Holders Fund / Total Asset

Year	Share Holders Fund	Total Asset	Ratio
2015-2016	23462.11	56776.00	0.42
2016-2017	21263.61	589878.29	0.36
2017-2018	20270.93	59221.30	0.35
2018-2019	22262.62	61909.63	0.37
2019-2020	18487.75	62689.87	0.30

The proprietary ratio reflects how much money the shareholders have put into the company's overall assets. A proprietary ratio of 0.5:1 or more [or 50% or more] is often considered ideal. The company's proprietary ratio is lower than the industry standard, as shown in Table 4.5. This poses a significant risk to the company's creditors. Year by year, the proprietary ratio has decreased from 2015-2016 to 2019-2020.

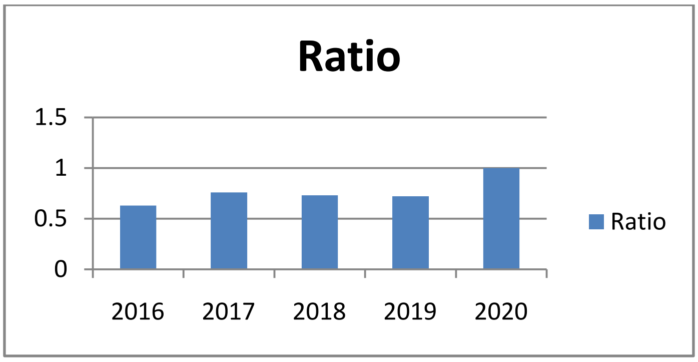

Figure 5. Debt Equity Ratio From 2015-2020

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Table 6. Working Capital Turnover

Working Capital Turnover Ratio = Net Sale/Working Capital

Working Capital = Current Asset – Current Liability

Year	NET SALES	WORKING CAPITAL	Ratio
2015-2016	42945.47	-6840.05	-6.26
2016-2017	44463.60	-8781.28	-5.05
2017-2018	59831.41	-9247.29	-6.3
2018-2019	68864.88	-9711.51	-7.08
2019-2020	43585.76	-12342.06	-3.5

A working capital turnover ratio of 7 or 8 times is often regarded as desirable. It is obvious from table 6 that the working capital turnover ratio is negative. As a result, each year's results are negative. It denotes that under trading, working capital is not used to generate sales.

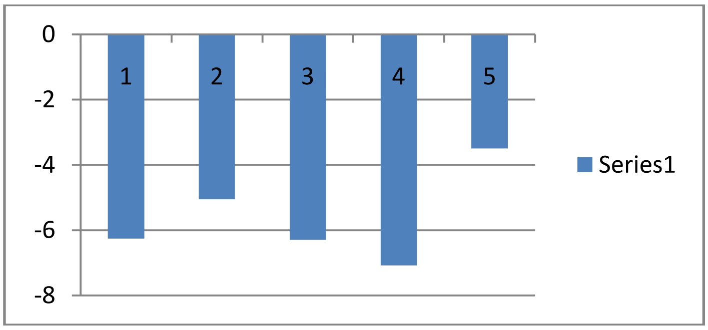

Figure 6. Working Capital Turnover

Table 7. Net Profit Ratio From 2015-2020

Year	Net profit	NET SALES	Ratio
2015-2016	-62.30	42945.47	-0.14
2016-2017	-2479.99	45463.70	-5.5
2017-2018	-1034.85	58931.41	-1.75
2018-2019	-2020.60	68864.88	-2.93
2019-2020	-7289.63	43585.76	-16.7

The net profit ratio is the proportion of a company's net profit to its net sales. In general, a 10 percent net profit ratio is ideal. The corporation fails to meet the standard ratio, as shown in table 7. This indicates that the company is undercharging. Also shows poorer profitability and a smaller return to the company's stockholders. From 2015-16 to 2019-2020, the net profit ratio has fluctuated from year to year.

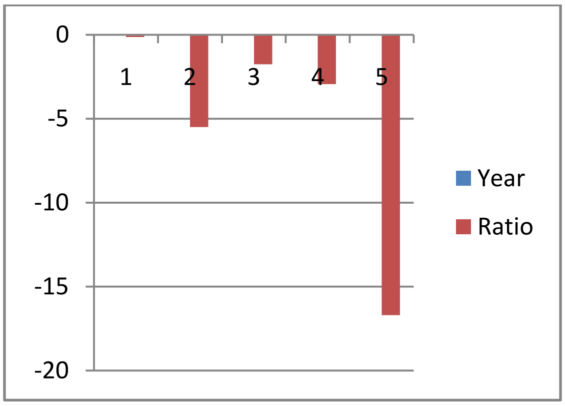

Figure 7. Net Profit Ratio From 2015-2020

Table 8: Return On Investment Ratio from 2015-2020

Return on Investment = Profit Before and Tax / Capital Employed *100

Capital Employed = Fixed Asset + Current Asset – Current Liability

Year	Profit Before And Tax	Capital Employed	Ratio
2015-2016	394.43	19932.29	1.97
2016-2017	-1470.75	19362.64	-7.6
2017-2018	207.57	17653.06	1.17
2018-2019	1840.91	18961.91	9.7
2019-2020	-4026.57	17560.72	-23.06

In general, a 15 percent return on investment is considered typical. Table 7 shows that the company's return on investment is below the industry average, and that it is negative in the second and third years. This indicates that the company's investment has depreciated in value over time. The company's return on investment follows a cyclical pattern.

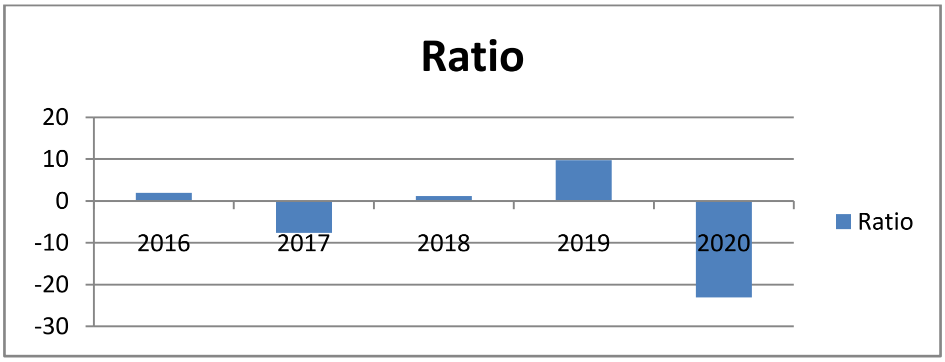

Figure 8. Return On Investment Ratio from 2015-2020

Table 9: Return on shareholder’s fund from 2015-2020

Return on shareholder’s fund=net profit after interest and tax/shareholders fund*100

Year	Net Profit After Tax	Share Holders Fund	Ratio
2015-2016	-62.30	23262.11	-0.26
2016-2017	-2479.99	21162.61	-11.7
2017-2018	-1034.85	20170.98	-5.14
2018-2019	2020.60	22162.52	9.11
2019-2020	-7289.63	18387.65	-39.64

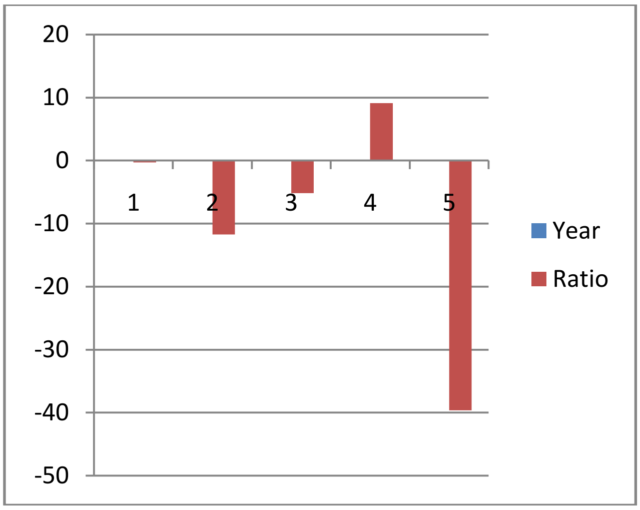

Figure 9. Return on shareholder’s fund from 2015-2020

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IV. FINDINGS, SUGGESTIONS:

1. The company's current ratio is unsatisfactory since it falls short of the optimum ratio. It shows that the firm's liquidity situation is poor, and that the firm will be unable to pay its present liabilities on time without difficulty.
2. In 2015-2016, the quick ratio was higher than average. The following year, it is lower than the average. It indicates that the company's ability to cover short-term debt is deteriorating.
3. From 2015-2016 to 2018-2019, the company did not achieve the standard Debt equity ratio ratio; but, in 2019-2020, it did. It demonstrates that the corporation uses borrowed funds more frequently than its own funds.
4. The proprietary ratio is below the industry average and is declining year after year. It demonstrates that the company is relying on debt or trade payables rather than equity to fund its operations.
5. The working capital turnover ratio indicates that the company does not have enough short-term funds to cover the sales made during that time period. This results in a lack of funds and can lead to a business's failure.
6. The fixed asset turnover ratio is lower than the industry average. A low fixed asset turnover ratio indicates that a company isn't making the most of its assets or exploiting their full income potential.
7. The total asset turnover ratio is lower than the industry average. It demonstrates that the corporation is not making the best use of its assets to produce revenue.
8. The net profit ratio falls below the industry average and even becomes negative. It signifies that a company's revenue from selling products or services is insufficient to pay the costs of producing or selling those products or services.
9. The company's return on investment is below average, and in the second and third years, it even becomes negative. This indicates that the company's investment has depreciated in value over time. The company's return on investment follows a cyclical pattern.
10. With the exception of 2018-2019, the company's return on shareholders' funds is lower than the industry average and even negative. It demonstrates that the company's stockholders are losing value rather than gaining it. For investors and management aiming to prevent a negative return as quickly as possible, this is usually a very poor indicator.

V. CONCLUSIONS:

The study's main goal was to examine TATA MOTORS' financial performance. The purpose of the study is to examine the company's financial performance in terms of solvency, liquidity, and profitability. The research is conducted using the company's published annual report from 2015 through 2020. TATA MOTORS Private Limited's financial performance is not sufficient, according to the report. The company's profitability is not strong; it has been steadily declining in terms of net sales and net profits since 2015, which can be improved by employing a sound financial management strategy.

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