

## **An Analysis Of Financial Performance Of Tata Motors Ltd**

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### **ABSTRACT**

*Finance represents the study of the money management. The ultimate goal of finance in business is to increase profitability and reduce risk. To evaluate the financial performance of Tata Motors Ltd by using Ratio analysis this measures the performance and its profitability. This study helps to identify the liquidity ratio and profitability ratio of the company for the period of five financial years from 2014- 2019.*

#### **Key Words**

*Financial performance, Profitability, Ratios, Financial analysis, Automobile industry*

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### **Introduction**

The Automobile industry is one of the fastest developing sectors in India. India become the fourth largest auto market in 2018 with sales increasing 8.3 percent year on year to 3.99 millions. The two wheeler segment dominates the market in terms volume owing to a growing middle class and a young population. In addition, several initiatives by the government of India and the major automobile players in the India market are expected to create revolution in automobile industry in India. Most traditional automakers have been experiencing stagnant or declining growth over the past few years.

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## **Objectives**

- To analyze the financial performance of the Tata Motors Ltd.
- To ascertain the liquidity and profitability position of the Tata Motors Ltd., for the period of five years from 2014- 2019.

## **Review of Literature**

To identify the cash fluctuation of profitability, liquidity position of BHEL and also to analyze the operational efficiency and overall financial performance of BHEL. *Saigeetha and Surulivel (2017)*<sup>1</sup> have done a research on “A Study on financial performance using ratio analysis of BHEL”. The study is based on secondary data. Ratios have been used in this study to analyze the data. The study highlighted that the company should try to increase the sales volume by reducing the cost to increase the profits and improve the profitability position.

To analyze the financial performance of the Tamil Nadu newsprint and paper Ltd and JK papers Ltd and also to study the liquidity position of the Tamil Nadu newsprint and paper Ltd and JK paper Ltd. *Judithpriya and etal (2108)* have done a research on ‘A Comparative study on the financial performance of the Tamil Nadu newsprint and papers Ltd and JK papers Ltd. This study is based on both the primary and secondary data. Liquidity ratio, solvency ratio and profitability ratio have been used in this study. It has been found from the study that the financial performances of both the companies are good and constant.

## **Analysis and Interpretation**

Ratio analysis is an important age old technique of financial analysis it is designed to show how one number related to one another. The following ratios have been used to analyze the financial performance of Tata Motors Ltd.

### **Liquidity ratio**

- Current Ratio
- Quick Ratio
- Cash Ratio

## Profitability Ratio

- Gross profit ratio
- Net profit ratio
- Operating profit ratio

## Current ratio

The current ratio is the indicator of a firm's liquidity. Current ratios express relationship between current assets and current liabilities. In a sound business, a current ratio of 2:1 is considered an ideal one. It is used to measure whether a firm has enough resources to meet its short term obligations.

**Current ratio = current asset / current liabilities**

**Table no. 1**  
**Current Ratio of Tata Motors Ltd**

**(In Crores)**

<b>YEAR</b>	<b>CURRENT ASSET (Rs)</b>	<b>CURRENT LIABILITY (Rs.)</b>	<b>CURRENT RATIO</b>
2014-2015	8572.97	20370.63	0.42
2015-2016	11861.69	18701.74	<b>0.63</b>
2016-2017	12757.08	21538.35	0.59
2017-2018	14971.66	24218.95	0.62
2018-2019	13229.30	22940.81	0.58

*(Source: moneycontrol.com)*

The above table shows that the current ratio is high in the year 2015-16, whereas low in the year 2014-15. Current ratio is fluctuating during the study period. The current ratio of the company is lower than the ideal ratio and the liquidity capacity of the company is at very low level. **To attain ideal ratio the company should increase the current assets to pay current liability.**

### Quick Ratio

The quick ratio is the financial ratio which is also known as acid test ratio or liquid ratio. It is the ratio between quick or liquid asset and quick liability. Generally, an acid test ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. It measures the companies short term debts and ability to pay its current liabilities.

$$\text{Quick ratio} = \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$$

Table no. 2

### Quick Ratio of Tata Motors Ltd

(In crores)

YEAR	CURRENT ASSET-INVENTORY (Rs.)	CURRENT LIABILITY (Rs )	QUICK RATIO (Times)
2014-2015	3770.89	20370.63	0.19
2015-2016	6743.77	18701.74	0.36
2016-2017	7204.07	21538.35	0.33
2017-2018	8619.62	24218.95	0.36
2018-2019	8567.3	22940.81	<b>0.37</b>

(Source: moneycontrol.com)

The above table shows that the quick ratio is high in the year 201-2019, whereas low in the year 2014-2015. Quick ratio is increased in the year 2015-16 and it is constant during the study period. The quick ratio of the company is lower than the ideal ratio. **To attain ideal ratio the liquid assets should be increased more than current liability.**

## Cash Ratio

The cash ratio is one of the ways to evaluate a company's liquidity. It is also called as absolute liquid ratio. It is a variation of quick ratio. When liquidity is highly restricted in terms of cash and cash equivalents, this ratio should be calculated.

$$\text{Cash ratio} = \frac{\text{cash and cash equivalents}}{\text{current liabilities}}$$

Table no. 3

### Cash Ratio of Tata Motors Ltd

(In Crores)

YEAR	CASH (Rs )	CURRENT LIABILITIES (Rs.)	CASH RATIO (Times)
2014-2015	944.75	20370.63	0.05
2015-2016	788.42	18701.74	0.04
2016-2017	326.61	21538.35	0.02
2017-2018	795.42	24218.95	0.03
2018-2019	1306.61	22940.81	<b>0.06</b>

(Source: moneycontrol.com)

The above table shows that the cash ratio is high in the year 2018-2019, whereas low in the year 2016-2017. Cash ratio is declining from the financial year 2014-18, but there is a slight growth in 2019. The ideal cash ratio is 0.5:1. It is high in the year 2018-19, whereas low in the year 2016-17. **It shows that the company is not having enough cash and cash equivalents to meet its liability.**

## Profitability Ratio

### Gross profit ratio

Gross profit ratio is also called as gross profit margin ratio. The difference between net sales and cost of goods sold is known as gross profit. This ratio determines the correlation between a gross profit margin and the net sales

$$\text{Gross profit ratio} = \text{gross profit} / \text{sales}$$

Table no.4

### Gross Profit RatioTata Motors Ltd

(In Crores)

YEAR	GROSS PROFIT (Rs.)	SALES (Rs.)	GROSSPROFIT RATIO (.%)
2014-2015	14580.86	36294.74	40.17
2015-2016	17419.75	42845.47	<b>40.66</b>
2016-2017	16462.35	44316.34	37.15
2017-2018	20433.93	58831.41	34.73
2018-2019	24737.54	69202.76	35.75

(Source: moneycontrol.com)

The table4 depicts that the gross profit ratio is high in the year 2015-16 and low in the year 2016. **The gross profit margin will increase when there is increase in sales margin.**

## Net profit ratio

Net profit ratio is one of the most popular profitability ratio. It shows the relationship between net profit after tax and net sales. It is used to calculate percentage of profit of the company.

$$\text{Netprofit ratio} = \text{net profit} / \text{sales}$$

Table no.5

## Net Profit TATA MOTORS Ltd

(In Crores)

YEAR	NET PROFIT (Rs.)	SALES (Rs.)	NETPROFIT RATIO (%)
2014-2015	-4738.95	36294.74	-13.06
2015-2016	-62.3	42845.47	-0.15
2016-2017	-2429.60	44316.34	-5.48
2017-2018	-1034.85	58831.41	-1.76
2018-2019	2020.60	69202.76	<b>2.92</b>

(Source: moneycontrol.com)

The above table show that the net profit ratio is high in the year 2018-19 whereas low in the year 2014-15. **It is continuously declines from the period 2015-2018 and gradually increased during 2019.** In 2019 net profit ratios is 2.92 %

## Operating profit ratio

Operating profit ratio is used to calculate the percentage of profit produced by the company. It is used to measure the ability of the management. This ratio shows the operational efficiency of the firm.

$$\text{Operating profit ratio} = \text{Operating Profit} / \text{sales}$$

**Table no.5**

**Operating Profit Ratio Tata Motors Ltd**

**(In Crores)**

<b>YEAR</b>	<b>OPERATING PROFIT (Rs)</b>	<b>SALES (Rs.)</b>	<b>OPERATING RATIO (%)</b>
2014-2015	7274.50	36294.74	20.04
2015-2016	10309.56	42845.47	<b>24.06</b>
2016-2017	8091.87	44316.34	18.26
2017-2018	11620.88	58831.41	19.75
2018-2019	15572.23	69202.76	22.50

*(Source: moneycontrol.com)*

The above table shows that the operating profit ratio is high in the year 2015-2016 whereas low in the year 2016-2017. Operating profit ratio is fluctuating during the study period. It is high in the year 2015-16 whereas low in the year 2016-17. In 2019 operating profit ratio is



22.50 %. Generally, for manufacturing concern an operating ratio between 75% and 80% is expected but here operating ratio is below the expected ratio.

## **Conclusion**

The study entitled to analyze the financial performance of Tata Motors Ltd for the period of five years from 2014-2015 investigates the strength and weakness of the company. The study analysis that the liquidity capacity of Tata Motors Ltd is very low to settle its short term obligation and the profit is declining. The Tata Motors have to improve the efficiency by increasing their current assets, quick assets, cash and cash equivalent and sales.

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ISSN: 0474-9030  
Vol-68-Issue-44-February-2020

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