RESEARCH PAPER | Management | Volume : 3 | Issue : 4 | April 2013 | ISSN - 2249-555X

A Study on Financial Status of Tata Motors Ltd

KEYWORDS: Sustainable growth rate, profit margin, retention ratio, asset turnover, shareholder wealth

A. Moses Joshuva Daniel

Assistant Professor, Dept of management studies, Achariya School of Business & Technology Puducherry, India

ABSTRACT *Financial analysis is the process of identifying the financial strengths and weakness of the firm from the available accounting data and financial statements. The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. This study aims at analyzing the overall financial status of the TATA MOTORS LTD by using various financial tools. The study has been undertaken for the period of 5 years from 2006-07 to 2010-11. In order to analyze financial status in terms of Profitability, solvency, Activity and financial stability various accounting ratios have been used.*

INTRODUCTION

The financial statement provides the basic data for financial performance analysis. The financial statements provide a summarized view of the financial position and operations of a firm. Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the viability, stability and profitability of a business. The analyst first identifies the information relevant to the decision under consideration from the total information contained in the financial statements. The analysis of financial statements is an important aid to financial analysis. They provide information on how the firm has performed in the past and what is its current financial position. Financial analysis is the process of identifying the financial strengths and weakness of the firm from the available accounting data and financial statements. The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. This study aims at analyzing the overall financial status of the TATA MOTORS by using various financial tools. TATA MOTORS LTD is located at Bombay House, 24 Horni Mody St, Mumbai 400 001.

SCOPE OF THE STUDY

The study is based on the accounting information of TATA MOTORS. The study covers the period of 2006-2011 for analyzing the financial statement such as income statements and balance sheet. The scope of the study involves the various factors that affect the financial status of the company. This study finds out the operational status of the organization and allocation of resources to improve the status of the organization. The data of the past five years are taken into account for the study. The performance is compared within those periods. This study finds out the areas where TATA MOTORS can improve the status clarity of its assets and funds employed.

OBJECTIVES OF THE STUDY

1. To compare and analyze the financial statements for the past FIVE financial years.
2. To know the Profitability, Activity, Solvency & Financial stability position of TATA MOTORS.
3. To forecast the annual growth rate of income of the company with the help of Trend analysis.
4. To provide suggestions for improving the overall finance performance of the TATA MOTORS.

METHODOLOGY

The study has been undertaken for the period of 5 years from 2006 -07 to 2010 -11. In order to analyze financial status in terms of Profitability, Solvency, Activity and Financial stability various accounting ratios have been used.

Ratio Analysis

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company.

Profitability Ratio Overall profitability ratio = Operating profit/Capital employed*100
Return on equity ratio = Net profit after interest, tax and pref dividend/equity share holders fund * 100 Earnings per share = Net profit after interest and tax-Dividend on preference shares

Chart 1.1 Overall Profitability ratios

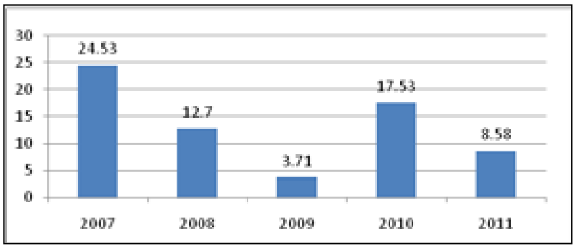
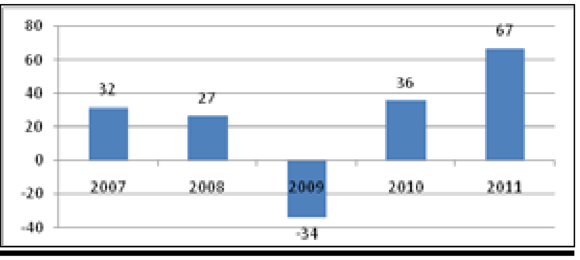


Chart 1.2 Return on equity



Volume : 3 | Issue : 4 | April 2013 | ISSN - 2249-555X

Chart 1.3 Earnings per share

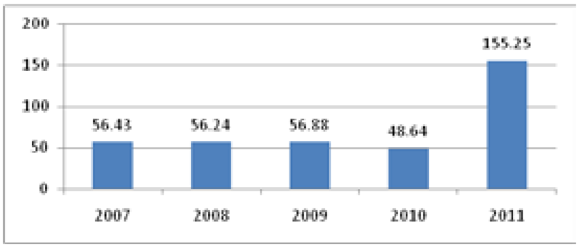


Table 1 Overall Profitability ratio

Years	Profitability ratio	Return on equity	Earnings per share
2007	24.53	32	56.43
2008	12.7	27	56.24
2009	3.71	-34	56.88
2010	17.53	36	48.64
2011	8.58	67	155.25

Source: Compiled from Annual Reports

The table 1 identifies Overall profitability ratio that shows in the year 2006-2007, the company shows 24.53% where as the years between 2008-2009 went through a change in the ratio of 12.7%. The company's profit went downward in 2008-2009 with the ratio of 3.71%.And rising over the next year 2009-2010 for 17.53%.And the year 2010-2011 it was declining as 8.58%. The table further observes Return on equity shows that in the year 2006-2007, the company shows 32% where as the years between 2007-2008 went through a change in the ratio of 27%. The company's profit went declining in 2008-2009 with the negative ratio of -34%. And positive results in the next year 2009-2010 as 36%. And the year 2010-2011 it was rising as 67% of the total rank. The table further reveals the Earning per share from the above table it indicates in the year 2006-2007, the earnings is 56.43 have been increased comparing to the next two years 2007-2009. And it's gradually declining over the next year 2009-2010 as 48.64. And the year 2010-2011 it was rapidly increasing as 155.25 per share.

Turnover ratio
Fixed assets turnover ratio = Sales / Net fixed assets
Net working capital ratio = Sales/net working capital

Chart 2.1 Fixed assets turnover ratio

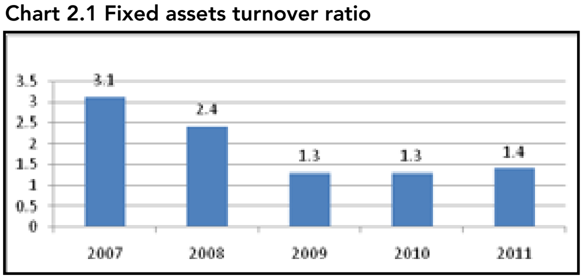


Chart 2.2 Net working capital ratios

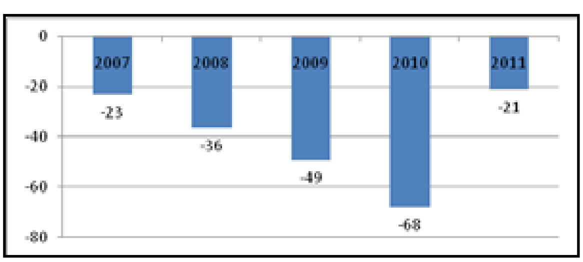


Table 2 Turnover ratio

Years	Fixed assets turnover ratio	Net working capital ratio
2007	3.1	-23
2008	2.4	-36
2009	1.3	-49
2010	1.3	-68
2011	1.4	-21

Source: Compiled from Annual Reports

The table 2 shows the consolidated turnover ratio of 2006-2007 as 3.1, it falls in the next year as 2.4 then falls, stay constant for next two years from 2008-2010 as1.3 and finally 2010-2011 it just its fore head up as 1.4.The Net working capital indicates an negative formation as falls to a deep hibernation follows from 2006-2007as -23,2007-2008 as -36,2008-2009 as -49,2009-2010 as -68 and finally 2010-2011 rises in positive value in negative line.

Short term solvency ratio

Current ratio=Current asset/Current liabilities
Liquid ratio = Quick assets / Current liabilities
Quick ratio or Acid Test ratio=Quick assets/Quick liabilities

Chart 3.1 Current ratio

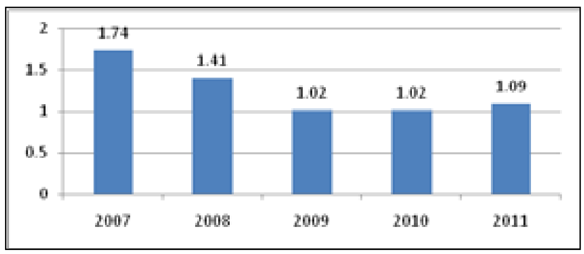


Chart 3.2 liquid ratio

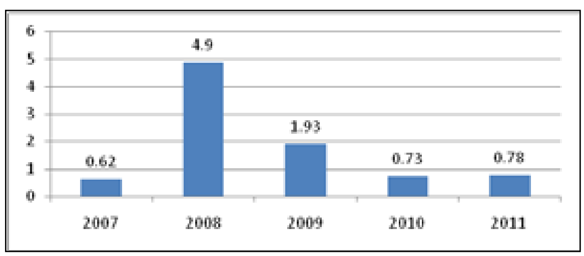


Chart 3.3 Quick ratio

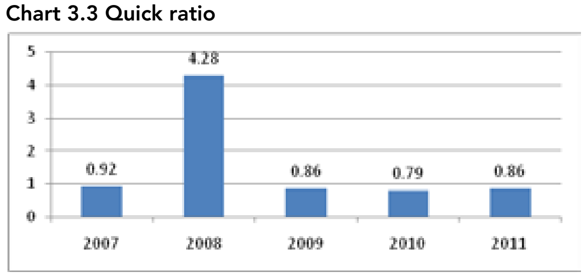


Table 3 Short term solvency ratio

Years	Current ratio	Liquid ratio	Quick ratio
2007	1.74	0.62	0.92
2008	1.41	4.9	4.28
2009	1.02	1.93	0.86
2010	1.02	0.73	0.79
2011	1.09	0.78	0.86

Source: Compiled from Annual Reports

Volume : 3 | Issue : 4 | April 2013 | ISSN - 2249-555X

The table inferred about short term solvency ratio as current year 2006-2007 was 1.74 it constantly decreases in upcoming years 2007-2008 as1.41,it floats in a level of constant from 2008-2009 as 1.02 and it slowly improve its own level of performance as 1.09. Liquid ratio of last five years follows that 2007-2008 its peak in performing as 4.9, remaining it runs slowly downswings on 2006-2007 as 0.62, 2008-2009 as 1.93, 209-2010 as 0.78and finally 2010-2011 as 0.78.The position of Quick ratio of 2007-2008 as 4.28 is higher when comparing to previous year 2006-2007 as 0.92, it remain constant in 2008-2009 and 2010-2011 as 0.86 where 2009-2010 shows 0.79.

Long term solvency ratio or debt ratio
Fixed assets ratio = Fixed assets / Long term funds

Chart 4.1 Fixed Assets

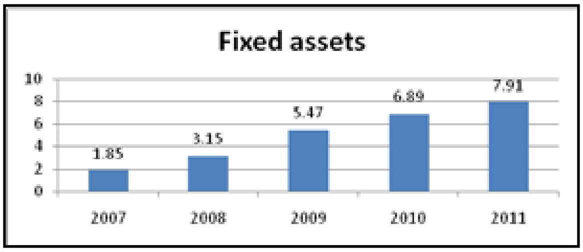


Chart 4.2 Debt equity ratio

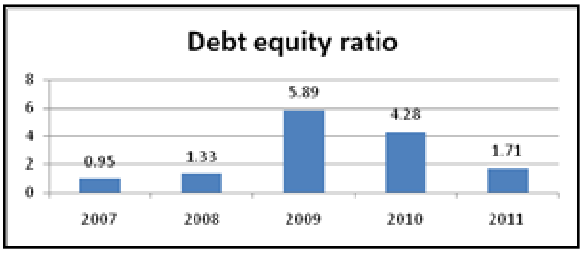


Table 4 Long term solvency ratio or debt ratio

Years	Fixed assets ratio	Debt equity ratio
2007	1.85	0.95
2008	3.15	1.33
2009	5.47	5.89
2010	6.89	4.28
2011	7.91	1.71

Source: Compiled from Annual Reports
The table 4 identifies fixed assets ratio which increases gradually in each year from 2006-2007 as 1.85,next year 2007-2008 it doubles in the rating as 3.15 but it put next step 2008-2009 on its ability as 5.47,the ratio makes its standard on 2009-2010 as 6.89 and finally it become an worthy full level as 7.91. Debt equity ratio during the year 2008-2009 shows it was high rate as 5.89, next year 2009-2010 it declining as 4.28,during 2006-2007 it shows 0.95 as well as 2007-2008 as 1.33 and during 2010-2011 its low in other years as 1.7.

TREND ANALYSIS
Trend analysis used for comparing the financial statement of a firm over a number of year, when the number of year is more than two, trend analysis is more appropriate trend analysis involves the calculation of percentage relationship of each item in the statement that bears to the same item in the base year.

Trend Value for Profit after Tax from 2006-2017

Year	X	Y	X=X-2009	X^2	XY	Y = a + b x
2007	2007	1913	-2	4	-3826	1797
2008	2008	2029	-1	1	-2029	1799
2009	2009	1001	0	0	0	1799
2010	2010	2240	1	1	2240	1800
2011	2011	1812	2	4	3624	1801

Year	X	Y=a + b x
2012	3	1802
2013	4	1803
2014	5	1804
2015	6	1804
2016	7	1805
2017	8	1806

Trend Value for Capital Employed From 2006-2017

Year	X	Y	X=X-2009	X^2	XY	Y = a + b x
2007	2007	16091	-2	4	-32182	15937
2008	2008	21725	-1	1	-21725	35938
2009	2009	42267	0	0	0	35938
2010	2010	45299	1	1	45299	45938
2011	2011	54306	2	4	108612	55938

Year	X	Y=a + b x
2012	3	65939
2013	4	75939
2014	5	85940
2015	6	95940
2016	7	105940
2017	8	115941

Trend Value for Sales of Vehicle from 2006-2017

Year	X	Y	X=X-2009	X^2	XY	Y = a + b x
2007	2007	1220	-2	4	-2440	1169
2008	2008	1559	-1	1	-1559	1953
2009	2009	1895	0	0	0	1953
2010	2010	2264	1	1	2264	2345
2011	2011	2827	2	4	5654	2737

Year	X	Y=a + b x
2012	3	3129
2013	4	3521
2014	5	3913
2015	6	4304
2016	7	4696
2017	8	5088

CONCLUSIONS
In the study of Financial Performance of TATA MOTORS LIMITED, it is clear that 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. By over viewing the working capital turnover ratio it is clear that the company wants to utilize its working capital efficiently that is the excess current assets should be adjusted according to current scenario. Though the net profit shows it is increased but we found that the net profit ratio has been decreased. So the company should consider increasing the sales in turn to increase the actual profit. If the company utilizes its working capital then the company can go heights which it wanted to achieve. To improve the status the company will strive for better performance and increase the loan levels of the company. The suggestions provided through the study will help the company to improve the financial performance status.

REFERENCE 1. Annual Reports of TATA MOTARS. | 2. Biswanath, S.R. (2008), "A Case Study: Financial Performance of Pharmaceutical | Companies", Oxford University Press, New Delhi. | 3. Chen, Q. (1999), "Evidence Analysis on Financial Distress of Listing Companies", Accounting Research. | 4. "Management Accounting" by T.S Reddy & Y. Hari Prasad reddy, Margham Publications | 5. Kothari C.R. (2003), "Research Methodology – Methods & Techniques, Wishawa Prakashan, New Delhi. | 6. Ohlson, James A. (1980), "Financial ratios and the probabilities prediction of bankruptcy", Journal of Accounting Research, Vol. 18. | 7. S.Siva, (2012), "A Study on Financial Efficiency of PIPDIC" A Journal of Economics & Management Vol1 issue 1 pg 26- 36 |