RESEARCH PAPER | Commerce | Volume : 6 | Issue : 4 | April 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

An Exploratory Study on Profitability Analysis of Tatamotors

KEYWORDS: Profitability Position, Net profit, EBIDT, PBT, PAT, Return on Net worth

DR.R.SATHYA	Ms.B.SARANYA
Assistant professor, Department of Commerce P.S.G College of Arts and Science,Coimbatore-641048 Tamilnadu, India.	Asst.Professor, Department of Commerce Dr.N.G.P. Arts and Science College Coimbatore-641048

ABSTRACT *The study examines the profitability position of Tata Motors for the past five years. Profitability ratios help in ascertaining the position of the company with respect to various profitability measures like Operating Profit, Net Profit & Return on Net Worth. Comparative study of annual increase in sales and profitability is made to understand the progress of the firm.*

Conclusions are drawn with the help of results obtained through abovementioned techniques.

INTRODUCTION
Finance is very important fact of every concern. The financial requirements of a business must be sufficient to meet its long-term and short-term commitments. In long term commitment, it needs permanent capital and for short-term commitments it needs working capitals.

Both excessive as well as inadequate finance position are dangerous from the business point of view. Finance is the heart of the concern without finance there is no another functions are operated.

Therefore the financial analyst is responsible to monitor the financial position of the business regularly. The company performance is judged though its financial statement. Financial statement analysis is one of the methods that can be used in predicating financial distress which focus on financial variables.

Among the variable tools are used to the financial information contained in the financial statement. Ratio analysis is widely tools, which is relevant in assessing the performance of a firm in respect of liquidity position short term solvency. A financial statement is an organized collection of data according to logical and consist ant accounting procedures.

PROFILE OF THE COMPANY
Tata Motors Limited is an automobile company. The Company is engaged in the business of automobile products consisting of all types of commercial and passenger vehicles, including financing of the vehicles sold by the Company. Its operating segments include automotive operations and all other operations. Its automotive segment operations include all activities relating to the development, design, manufacture, assembly and sale of vehicles, including vehicle financing, as well as sale of related parts and accessories. Its automotive operations are further subdivided into Tata and other brand vehicles (including vehicle financing) and Jaguar Land Rover. It's all other operations segment includes information technology services, and machine tools and factory automation solutions. Its commercial and passenger vehicles are marketed in countries in Europe, Africa, the Middle East, South East Asia, South Asia, South America, Australia, Commonwealth of Independent States and Russia.

OBJECTIVES OF THE STUDY
- To know the financial position of the Tata Motors.
- To know the Liquidity and profitability position of the company.
- To find out the debt servicing capacity of the company.

SCOPE OF THE STUDY
- The study covers the financial performance of the Tata Motors.
- The study is made by making comparison of five year of its operation.
- The study covered aims to reveal where the stands in respect to liquidity and effective use of asset.

REVIEW OF LITERATURE
Jane P. Elvins (1985) – The article reports the findings of an exploratory study of communication in informal groups. It is generally accepted in the literature that informal groups improve communication in organizational settings, yet to specific research has been conducted that explains how communication is improved. This study was conducted to investigate the question and provide hypothesis to be tested in future communication studies.

Thomas C. Head, Julie L. Molleston, Peter F. Sorensen(1986) – This study utilized four manufacturing units of a large organization to assess what impact implementing a informal group program has an employee task and effective outcome response perceptions. The literature supported the theory that employee's attitudes would improve following informal group implementation.

Anat Rafaeli (2006) – Informal groups have repeatedly been suggested as a technique for enhancing employees involvement in and satisfaction with their work. This study explored the relationship between employees' participation in informal group activities and their reactions to their jobs. Specifically, the relationship of participation in IG activities and employee's perceptions of the influence they have on their jobs, the characteristics of their job, and their overall job satisfaction were examined.

Patrick R. Liverpool (1990) – This study sought to assess

Volume : 6 | Issue : 4 | April 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

the perceptions of members and non-members of informal groups with reference to their perceived degree of actual and desired participation in decision making. The sample comprised of 214 non-supervisor employees from three manufacturing plants. The results indicate that the actual amount of perceived participation differed very little between IG and non-IG employees.

Yugoslavia".(1957)-According to International Labour Organization (ILO) "Workers' participation may, broadly be taken to cover all terms of association of workers and their representatives with the decision-making process, ranging from exchange of information, consultations, decision and negotiations to more institutionalized forms such as the presence of workers' as members on management or supervisory boards or even management.

Keith Davis (2003)-"participation refers to the mental and emotional involvement of a person in a group situation, which encourages him to contribute to group goals and share in the responsibility of achieving them".

ANALYSIS AND INTERPRETATION
CURRENT RATIO:
The ratio of current assets to current liabilities is called 'current ratio'. In order to measure the short-term liquidity or solvency of a concern, comparison of current assets and current liabilities is inevitable. Current ratio indicates the ability of a concern to meet its current obligations as and when they are due for payment.

Formula

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

CURRENT RATIO

(Rs in lakhs)

S.NO	YEAR	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
1	2009-2010	4,13,968.43	2,96,075.72	1.4:1
2	2010-2011	3,98,377.17	3,75,987.37	1.1:1
3	2011-2012	4,30,388.63	4,84,370.23	0.88:1
4	2012-2013	4,27,689.38	5,29,609.77	0.80:1
5	2013-2014	3,85,543.50	4,58,660.20	0.84:1

Source: Annual Report

It is observed from the above table, the current asset of the company was the highest (Rs.4, 30,377.17 lakhs) during the year 2012 and it was lowest (Rs.3, 85,543.50lakhs) in 2013-2014.The Current Ratio of the company was the highest (1.4:1) during the year 2009-2010 and it as lowest (0.80:1) during the year 2012-2013.therefore the firm should increase its current assets.

GROSS PROFIT RATIO
This ratio is also known as Gross Margin or Trading Margin Ratio. Gross Profit Ratio indicates the difference between sales and cost of goods sold. Gross profit ratio explains the relationship between gross profit and net sales.

Formula

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

GROSS PROFIT RATIO

(Rs in lakhs)

S.NO	YEAR	GROSS PROFIT	SALES	RATIO
1	2009-2010	2,53,947.72	7,99,943.81	31.70%
2	2010-2011	4,35,674.87	12,25,364.06	35.5%
3	2011-2012	4,56,567.87	13,91,287.44	32.78%
4	2012-2013	6,54,765.87	13,53,160.46	48.33%
5	2013-2014	5,67,854.56	10,60,812.88	53.5%

Source: Annual Report

It can be noted from the above table, the gross profit of the company was highest (6, 54,765.87) during the year 2013.The gross profit ratio of the company was highest (48.33%) during 2012-2013 and it was lowest (31.70) during 2009-2010.

RETURN ON INVESTMENT
This ratio is called 'Return on Investment' (R.O.I) or 'Return on Capital Employed'. It measures the sufficiency or otherwise of profit in relation to capital employed.

Formula

$$\text{Return on Investment} = \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$$

RETURN ON INVESTMENT RATIO

(Rs in lakhs)

S.NO	YEAR	NET PROFIT BEFORE TAX AND INTERST	LONG TREM FUND EMPLOYED	RATIO
1	2009-2010	76,744.98	6,32,128.52	0.12:1
2	2010-2011	80,179.93	6,83,344.08	0.18:1
3	2011-2012	68,837.66	7,07,204.48	0.09:1
4	2012-2013	47,070.67	7,80,060.44	0.06:1
5	2013-2014	9,121.89	8,22,139.37	0.01:1

Source: Annual Report

It is pointed that the investment return ratio is very high during the year 2010-2011 and it was low during the year 2013-2014.

FIXED ASSETS TURNOVER RATIO
Fixed Assets Turnover Ratio explains the relationship between sales and fixed assets. This ratio indicates the sales generated by every rupee invested in fixed assets. A higher ratio is an indicator of greater efficiency in the utilization of fixed assets.

Formula

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Cost of goods sold/ Sales}}{\text{Net Fixed Assets}}$$

FIXED ASSETS TURN OVER RATIO

Volume : 6 | Issue : 4 | April 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

(Rs in lakhs)

S.NO	YEAR	COST OF GOODS SOLD	NET FIXED ASSETS	RATIO
1	2009-2010	5,45,996.09	4,81,583.92	1.13 TIMES
2	2010-2011	7,49,855.43	6,60,954.28	1.14 TIMES
3	2011-2012	8,50,416.66	7,61,186.08	1.11 TIMES
4	2012-2013	7,53,941.64	8,81,980.83	0.9 TIMES
5	2013-2014	5,90,969.47	8,95,256.07	0.7 TIMES

Source: Annual Report

The above table shows that fixed assets turnover ratio is very high (1.14) during the year 2010-2011 and it was very low (0.7) in the year 2013-2014.

COMBINED LEVERAGE

A combination of the operating and financial leverages is the total or Combination Leverage. The operating leverage causes a magnified effect of the change in sales level on the EBIT level and if the financial leverage combined simultaneously, then the change in EBIT will, in turn, have a magnified effect on the EPS. A firm will have wide fluctuations in the EPS for even a small change in the sales level. Thus effect of change in sales level on the EPS is known as combined leverage.

Thus Degree of Combined Leverage may be calculated as follows:

Combined leverage= operating leverage x financial leverage

COMBINED LEVERAGE RATIO

(Rs in lakhs)

S.NO	YEAR	OPERATING LEVERAGE RATIO	FINACIAL LEVERAGE RATIO	RATIO
1	2009-2010	1.06 TIMES	2.4 TIMES	2.54 TIMES
2	2010-2011	1.07 TIMES	1.78 TIMES	1.90 TIMES
3	2011-2012	1.04 TIMES	2.0 TIMES	2.08 TIMES
4	2012-2013	1.06 TIMES	2.7 TIMES	2.9 TIMES
5	2013-2014	1.14 TIMES	8.4 TIMES	9.6 TIMES

Source: Annual Report

It can be understood from the table, the operating and financial leverage of the company was inclined during the study period. The combined leverage of the company was highest (9.6) during the year 2013-2014 and it was lowest (1.90) during the year 2010-2011.Therefore the firm has to concentrate in increasing the both financial and operating leverage.

FINDINGS

- The current ratio of the company was in below the standard norm 2:1 during the past 5 years of the study period and there is also no significant growth in current ratio.
- The liquid ratio is also called "Acid Test Ratio". during the study period it is in decreasing trend and it is shows that the result was in below the standard norms(i.e.1:1)
- The liquid asset means it can be easily convertible into cash. The company is not satisfied with this ratio.
- Net working capital ratio is to measure the efficiency of net working capital of the company the Net working capital Ratio of the company was the highest (0.54:1) during the year 2010-2011 and it as lowest (0.22:1) during the year 2009-2010.
- Fixed asset to current asset ratio is used to measure the long-term solvency and financial stability of the firm. It explains the relationship between fixed assets and currents. The fixed asset to current asset Ratio of the company was the highest (2.32:1) during the year 2013-2014 and it as lowest (1.16:1) during the year 2009-2010.
- Solvency ratio is used to measure the solvency position of the company. This ratio has relationship between total liability and total asset. The total liabilities to total asset Ratio of the company was the highest (0.66:1) during the year 2012-2013 and it as lowest (0.60:1) during the year 2009-2010.
- Return on capital ratio is used to analysis the profitability of the firm from the point of view of funds employed and to evaluate the efficiency of the management. It is observed that capital employed return ratio is high (0.23) during the year 2011 and it was low (0.02) during the year 2014
- Return on total asset ratio is calculated to measure the productivity of total assets. The highest ratio of return on total asset is (0.07) during the year 2009-2010 and it was low (0.002) during the year 2013-2014.
- Creditors turnover shows on the average the number of times the creditors are turned over during a year. A higher ratio indicates quick settlement of dues and a lower ratio reflects liberal credit terms granted by suppliers. Creditor turnover ratio is very high in the year 2011-2012 it was low in the year 2009-2010.
- Inventory turnover ratio indicates the number of times the stock is turned over or re-placed during a year. A high ratio indicates quick movement of stock and vice versa. Inventory turnover is high in the year 2010-2011 and it was low in the year 2009-2010.
- The Financial Leverage may be defined as a % increase in EPS associated with a given percentage increase in the level of EBIT. The financial leverage of the company was highest (8.4) during the year 2013-2014 and it was lowest (1.78) during the year 2010-2011.
- Operating Leverage reflects the impact of change in sales on the level of operating profits of the firm. The operating leverage of the company was highest (1.14) during the year 2013-2014 and it was lowest (1.04) during the year 2011-2012.
- A combination of the operating and financial leverages is the total or Combination Leverage. The combined leverage of the company was highest (9.6) during the year 2013-2014 and it was lowest (1.90) during the year 2010-2011.

SUGGESTIONS

The financial performance of the ASHOK LEYLAND during the study period is in satisfactory level and researcher is able to give opinion with regard to the company's point of view. The following are the suggestion made on the basis of findings

- The firm should use debt and preference capital

Volume : 6 | Issue : 4 | April 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

along with owner's fund.

- The firm has to concentrate in increasing the both financial and operating position.
- The firm needs to increase its current asset.
- The firm should reduce its day to day expenses.
- The firm needs to increase its turnover.
- The firm should maintain the stability of inventories.
- The firm has to increase its operating profit.

Conclusion

The study was undertaken to analyze the leverage & financial performance of automobile industry. From the study, it can be concluded that the company's overall performance of financial and operating efficiency was satisfactory.

The researcher has found that the firm should use debt and preference capital along with the owner's fund. If the firm implements these suggestions they can further increase their profitability position.

If the person those who have interests on finance and effective management go through this research report, they would get necessary information with regard to functional areas in accounting and finance.

References:

1. Dr..A.Palaniappan,P.Velusamy (2009),"Capital structure liquidity and profitability of chemical industry in India"., Indian Journal of Management
2. R. Amsaveni(2009), " Impact of Leverage on Profitability of Primary Aluminum Industry in India", Indian Journal of Finance.
3. Cosh, A. & Hughes A.(1993), "Size, financial structure and profitability: U.K. companies in the 1980"s", Working Paper, Small Business Research Center, University of Cambridge..
4. Venkatesan T., Dr Nagarajan S.K.(2012), "An empirical study of profitability analysis of selected steel companies in india", International Journal of Marketing, Financial Services & Management Research.