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Profitability Analysis of Tata Motors

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Abstract

It's pivotal to study growth and substance. It can identify its strengths and faults for unborn exploration through this evaluation assessment. By using profitability analysis, a business may determine if investments are producing advanced returns, whether operation is effective or not, and whether it has hired effective workers or not. The lifeblood of a establishment is profit. For survival, development, and expansion, it's essential. Profit is necessary to satisfy investors, earn their trust, pay off scores, and cover costs like rent, hires, stipend, and other charges. Profit serves as the standard for a business's effective functioning.

The intended issues of any association's conduct are appertained to as its objects. Profitability is one of TATA Motors' primary pretensions in order to maintain its actuality and expansion. By using profitability rates, acceptable examination is carried out to make sure that a profit is made. These are the most important and secure labels of fiscal performance. They keep an eye on how effects are going now and help operation in taking remedial measures if there's a deterioration. The exploration uses several fiscal parameters to assay the performance of Tata Motors. This essay aims to give a logical assessment of Tata Motors' fiscal performance. The fiscal state of Tata Motors between 2018 and 2022.

Review of literature

To determine the fiscal strengths and sins of Tata Motors Ltd., it shouldered a exploration. Using fiscal statements for the last five times. To give commentary on the company's fiscal situation, trend analysis and rate analysis are employed. Financial It's advised to enhance the company's loan situations for bettered performance since the company's performance is satisfactory. this purpose. Profitability rates show where a establishment stands in relation to other profitability criteria including functional Profit, Net Profit, and Return on Net Worth. To assess the establishment's development, a comparison of periodic increases in deals and profitability is done. Tata Motors' profitability analysis shows that it has created enough plutocrat and handed large returns, still there have been changes. In times of concern, the return on equity of companies was under 10. Yet, inner fiber was applaudable reducing charges in order to boost profitability. He also recommended using working capital effectively. According to" Financial Performance of Tata Motors," the pot issued equity shares but not performance shares, and its tip has not yet been set. Despite the pot furnishing shareholders with generous returns. The study covers the data of 10 times from 2011 to 2021. It's fully grounded on secondary data which is taken from periodic reports published on Money Control. colorful types of Profitability rates and statistical ways have been used in this study for assaying the data.

Objectives of this study are:

1. To assess Tata Motors' financial situation

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2. 2. To check profitability position of Tata Motors.
3.

TATA MOTORS

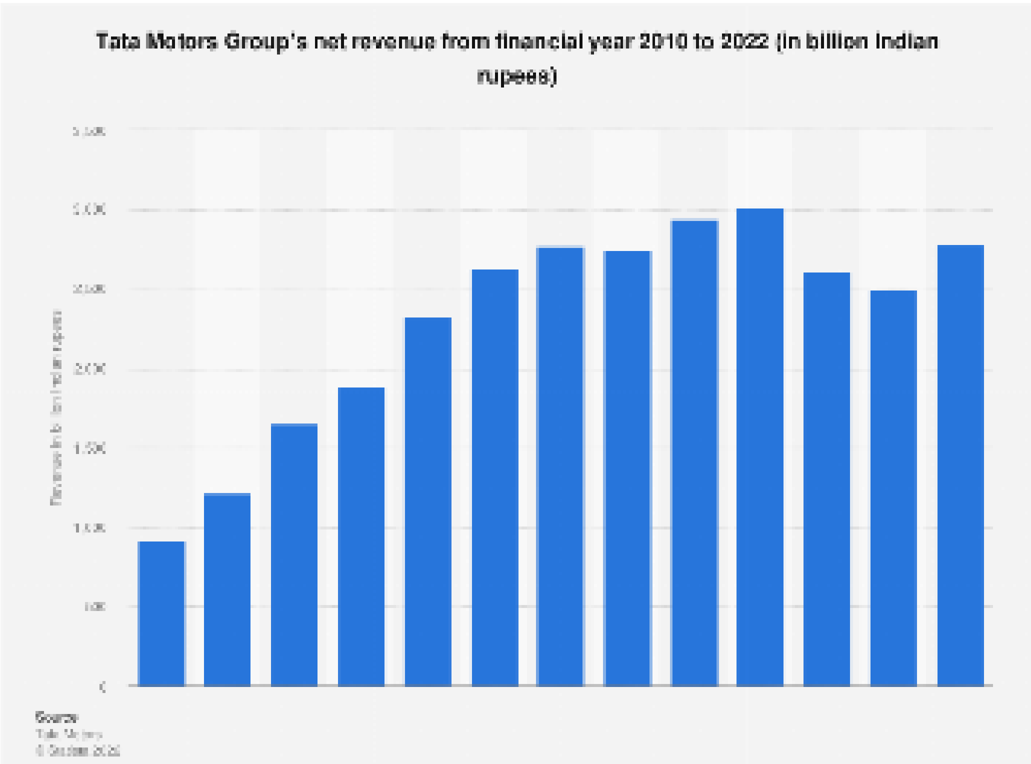
DATA ANALYSIS AND INTERPRETATION

In order to find relevant information, support inferences, and help decision-making, data analysis is the process of analysing, cleaning, manipulating, and modelling data.

Giving meaning to the processed and analysed data is the process of data interpretation. We may then analyse data patterns, deduce the importance of variable correlations, and draw educated and relevant inferences from the results.

The following ratios are used for the analysis in this study:

1. 1.Current ratio
2. Liquid ratio
3. Super quick ratio
4. Debt equity ratio
5. Proprietary ratio
6. Solvency ratio
7. Fixed asset to net worth ratio
8. Capital gearing ratio
9. Net profit ratio
10. Operating cost ratio



Current Ratio

The current ratio assesses a company's ability to meet short-term or one-year obligations. Investors and analysts can understand how a company can use current assets on its balance sheet to settle current debt and other commitments.

Current ratio = current assets/current liabilities

Table 1. showing current ratio OF TATA MOTORS

year	Current assets	Current liabilities	Current ratio
2018	14971.66	24218.95	0.62:1
2019	13229.30	22940.81	0.57:1
2020	13568.76	25810.82	0.53:1
2021	15854.59	26251.55	0.60:1
2022	**15,619.61**	26992.81	0.98:1

The table demonstrates that the company's current ratio during the last five years has fallen short of optimum levels. Throughout the past five years, it has been essentially constant. As a result, the company's current ratio is quite unsatisfactory. It cannot, therefore, even cover the company's present liabilities.

Liquid Ratio:

The fast ratio, commonly referred to as the acid-test ratio, gauges a company's capacity to settle all of its existing debts when they become due using only assets that can be swiftly turned into cash.

Liquid ratio = quick or liquid assets/current liabilities

TABLE 2 SHOWS LIQUID RATIO OF TATA MOTORS

year	Liquid assests	Current liability	Liquidity ratio
2019	6918.31	24218.95	0.29:1
2019-2020	6199.51	22940.81	0.27:1
2020-2021	6627.7	25810.82	0.26:1
2021-2022	11302.88	26251.55	0.43:1

The liquid ratio is shown in the above table. The liquid to solid ratio is 1:1. This indicates that current obligations and liquid assets are exactly equal. When compared to the typical liquid ratio, the last five years for this corporation indicate a lower liquid ratio. It also signifies that the business is unable to fulfil its present debts.

Super quick ratio

When liquidity is constrained to cash and cash equivalents, the Super Quick Ratio is taken into account. For every firm, it is calculated by dividing super-quick assets by current liabilities.

Super quick = super quick assets/current liability

TABLE 3 SHOWS SUPER QUICK RATIO OF TATA MOTORS

year	Super quick assests	Current liabilities	Super quick ratio
2017-2018	795.42	24218.95	0.03
2018-1019	1306.61	22940.81	0.06
2019-2020	3532.19	25810.82	0.14
2020-2021	4318.94	26251.55	0.16

The Super quick ratio is displayed in the above table. The 0.5:1 standard for ultra fast ratio is acceptable. The corporation has a rising super fast ratio in this instance. Nevertheless, it falls short of the optimal ratio for the super fast ratio, making it unsatisfactory.

Debt equity ratio:

The debt-equity ratio is a measurement of how much capital was used by a firm in relation to the contributions made by shareholders and creditors. The debt-to-equity ratio is the proportion of a company's total long-term debt to its equity capital, to put it simply.

Debt equity ratio = long term debt/shareholders fund

TABLE 4 SHOWS DEBT EQUITY RATIO OF TATA MOTOR

year	Debt	equity	Debt equity ratio
2017-18	13155.91	20170.98	0.65:1
2018-19	13914.74	22162.52	0.63:1
2019-20	14776.51	18387.65	0.80:1
2020-21	16326.77	19055.97	0.86:1

The usual debt to equity ratio is one to one. This is the company's lower ratio during the last five years. That shows that it is preferable for creditors. This lower ratio, however, is unsatisfactory for shareholders as it implies that the business has not been successful in controlling its earnings through the use of outside capital.

Exclusive ratio

The proprietary ratio, sometimes referred to as the equity ratio, measures how much equity there is in the company as a percentage of total assets. As such, it offers a broad estimation of the amount of money that is currently being utilised to sustain the company.

TABLE 5 SHOWS PROPRIETARY RATIO OF TATA MOTORS

year	Shareholders fund	Total assests	Proprietary ratio
2018-19	20170.98	59212.30	0.34
2019-20	22162.52	60909.63	0.36
2020-21	18387.65	62589.87	0.29
2021-22	19055.97	65059.66	0.29

Solvency ratio:

Prospective company lenders frequently utilise a solvency ratio as a significant indicator of an organization's capacity to pay down its long-term debt commitments.

Solvency ratio = total assets/total debt

TABLE 6 SHOWS SOLVENCY RATIO OF TATA MOTORS

Year	Total assests	Total debt	Solvency ratio
2018-19	59212.30	37374.86	1.67
2019-20	60909.63	36855.55	1.65
2020-21	62589.87	40587.33	1.54
2021-22	65059.66	42582.32	1.53

Fixed asset to net worth ratio:

The non-current assets to net worth ratio, which is also known as the fixed assets to net worth ratio, is a straightforward formula that provides additional information regarding a company's ability to pay its debts.

Fixed asset - worth ratio=fixed assets/total shareholders fund

TABLE 8 SHOWS FIXED ASSEST TO NET WORTH RATIO OF TATA MOTORS

year	Fixed assests	Total shareholders fund	Fixed assest to net worth ratio.
2018-19	26800.35	21162.61	1.33
2019-20	28573.42	22162.52	1.29
2020-21	29702.78	18387.65	1.62
2021-22	29429.56	19055.97	1.54

Capital gearing ratio:

The amount of debt a firm has in relation to its equity is referred to as capital gearing. A company's financial risk is represented by its capital gearing. It is also known as financial leverage or financial gearing.

Capital gearing ratio= fixed income bearing funds/equity shareholders fund

TABLE 9 SHOWS CAPITAL GEARING RATIO OF TATA MOTORS

year	Fixed income bearing funds	Equity share holders funds	Capital gearing ratio
2018-19	28573.42	13914.74	2.05
2019-20	29702.78	14776.51	2.01
2020-21	29429.56	16326.77	1.80

Net profit ratio

The net profit ratio, also known as the net profit margin ratio, is a measure of a company's profitability that contrasts its earnings with the total revenue it receives. The link between a company's net profit after taxes and net sales is therefore represented by the net profit margin ratio.

Net profit ratio =(net profit /revenue from operation)×100

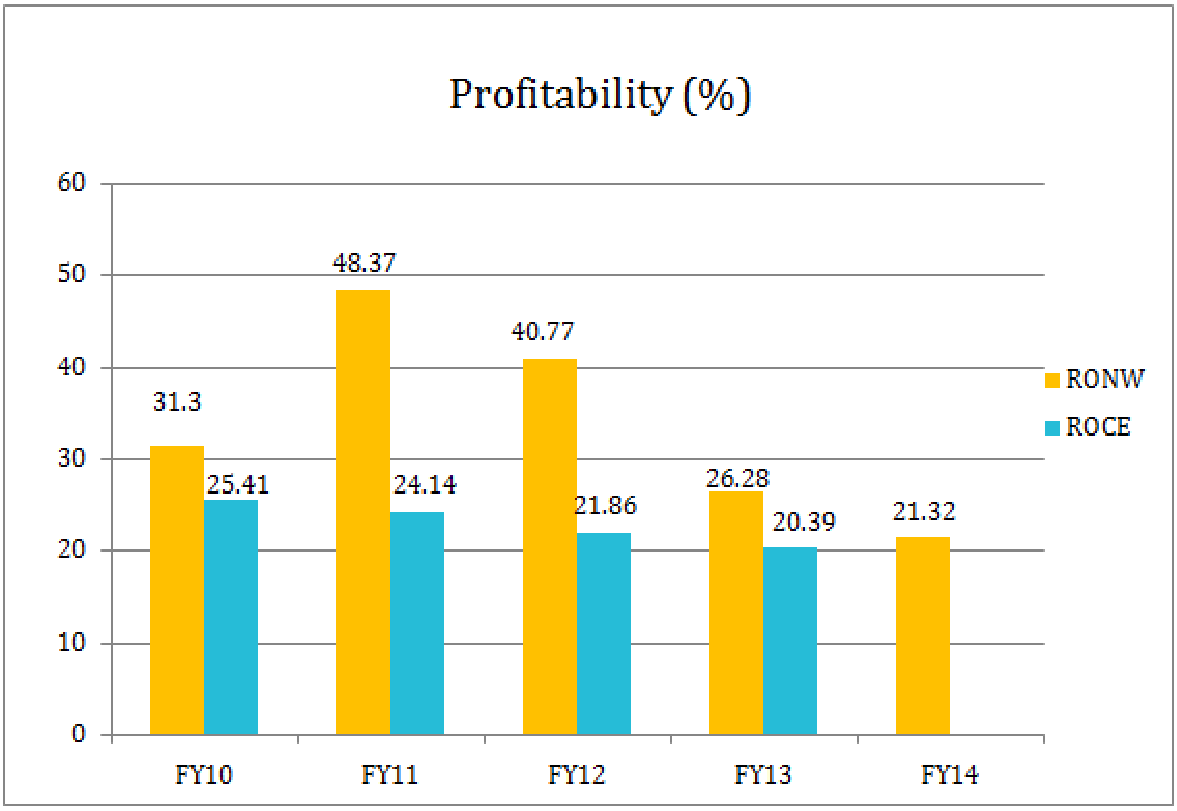
TABLE 10 SHOWS NET PROFIT RATIO OF TATA MOTORS

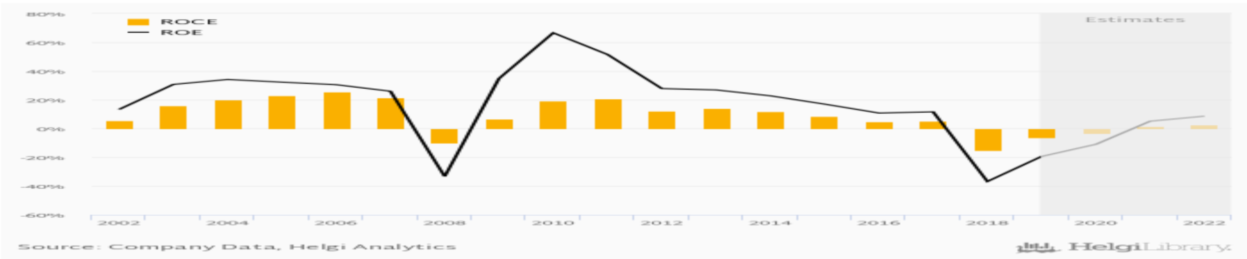
year	Net profit after tax	Revenue from operation	Net profit ratio
2017-18	-1034.85	58831.41	-1.76%
2018-19	2020.60	69202.76	2.92%
2020-21	-2395.44	47031.47	-5.09%

Operating cost ratio:

The operational cost ratio is calculated by dividing operating expenditures by net sales for a given time.
Operating cost ratio = (operating cost/revenue from operation)×100

year	Operating cost	Revenue for operation	Operation cost ratio
2018-19	4844.83	69202.76	7%
2019-20	5214.55	43928.17	11.87%
2020-21	5120.63	47031.47	10.89%





Suggestions:

To improve its short-term financial situation, the corporation needs to grow working capital. It lacks the funds to pay even immediate obligations.

The corporation relies on its creditors for working cash, which might lead to new debt. Then, if a profit ratio has been negative for the last four years, with the exception of 2020-2021, steps must be made for the benefit of the company's shareholders in order to enhance the net profit ratio. The firm needs to increase working capital in order to strengthen its short-term financial situation. It lacks the resources to cover even short-term liabilities.

When the corporation gets its working capital from creditors, additional liabilities might result. For the last five years, the company's share capital has remained stable. They must raise their share capital by boosting net income.

In general, firms don't provide dividends to investors since they use the money for company operations instead. The business has also used the dividend in this instance. The investors may suffer as a result of this. So, increasing its sales income is crucial.

Conclusion:

I'd want to draw the conclusion that Tata Motors Ltd. has been successful over the past five years. Since 2009, it was discovered that the company's net sales and net profits had been expanding gradually. These variations in the earnings might have been brought on by:

1.A high tax rate
2.High interest rates on loans
3.High cost of depreciation
4. high costs, etc.

This may be altered by putting good money management principles into practise. Hence, it can be said that the company's inner strength is extraordinary. By using the right amount of capital gearing and cutting back on administrative and financial costs, a company may further increase its profitability. TATA Motors is an all-around powerful firm that has found its strength and development through its parent company after conducting extensive study and financial analysis of the company.

TATA Motors has to introduce new domestic market strategies in the premium category and concentrate on growing its market share in India's passenger car industry.

Both businesses' liquidity, leverage, and analyses have been completed. The findings indicate that TATA Motors Ltd. must enhance the proprietor's fund contribution to the firm in order to strengthen its long-term solvency position.

They will constantly prioritise creating new items and entering new markets.

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