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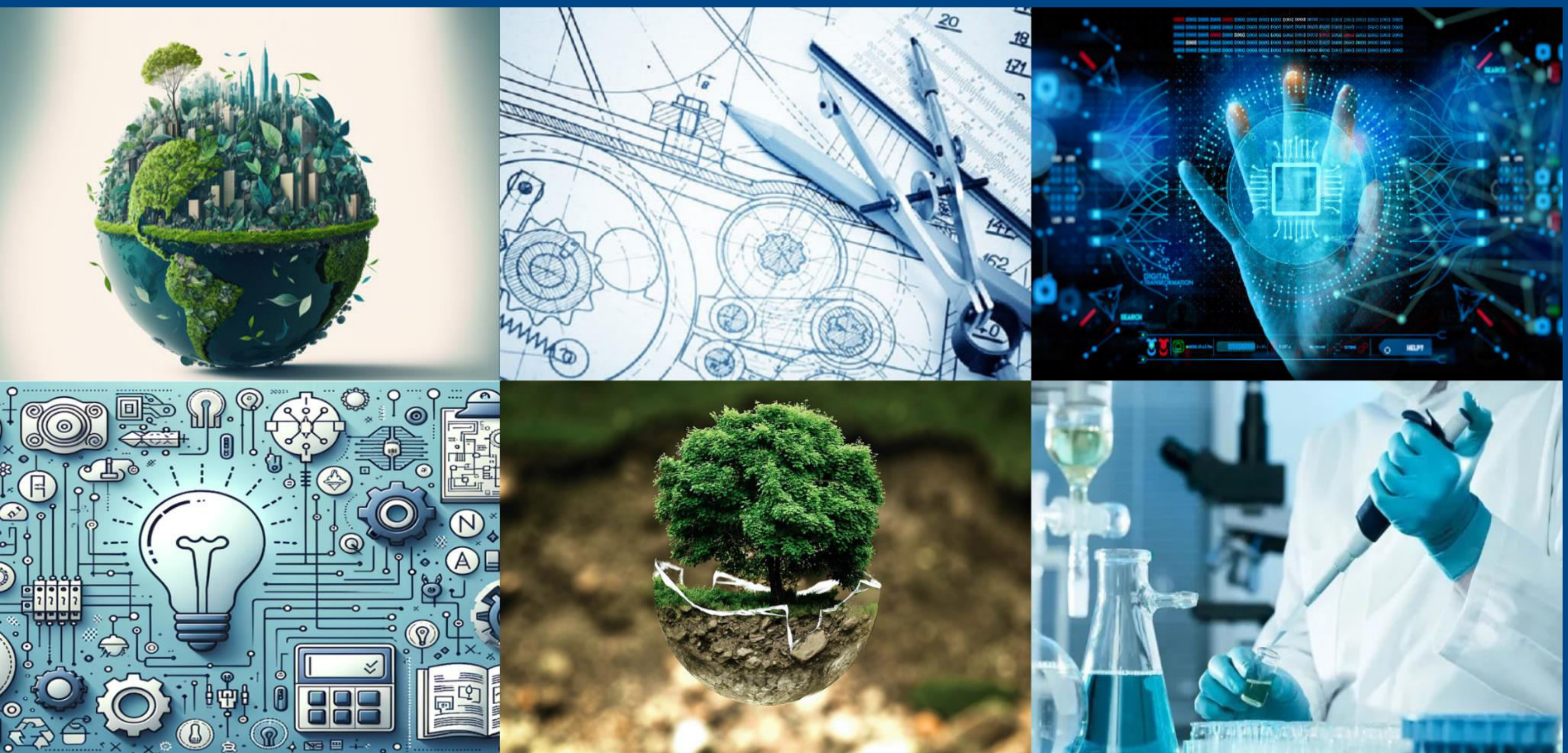

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Assessing the Impact of Liquidity and Profitability Position of Tata Motors

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ABSTRACT: Every organization needs finance to conduct its activities and the financial statements shows the details of financial position, which is more helpful to understand more about the business. Analysing financial statement is necessary to understand the profitability and position of business. Major scope of this study is to find out the financial strength and weakness of the firm from analysing the financial statements. The main objective of financial management is to control required funds for meeting short term and long-term needs of business enterprise and to maximize the value of firm to its equity shareholders. To have a clear understanding of the profitability and financial position of business, the financial statements have to be analysed and interpreted. The study helps to assess the profitability and financial position of a concern. This analysis was done by comparing the ratios for the same over a period of years. Accounting ratios are calculated for a number of years which shows the trend for the change of position. To take certain important decisions for their business various users like managements of the companies, bankers, investors and creditors etc. uses the accounting ratios for analysing the financial position. The secondary data is used for the entire study.

KEYWORDS: Financial performance, Profitability, Liquidity

I. INTRODUCTION

Financial management refers to the strategic planning, organising, directing, and controlling of financial undertakings in an organisation or an institute. It also includes applying management principles to the financial assets of an organisation, while also playing an important part in fiscal management. No business can plan its activities without considering its financial resources The business functions of a finance department typically include planning, organizing, accounting and controlling the company's finance and to ensure intensive and economic use of capital resources of the organization. Since business firms are profit seeking organizations, their functions are to maximize the company's wealth. Asset management, costing, budgeting, credit management, debit management are the other functions of the finance department. Finance in essence is considered with the acquisition and use of funds by a business firm.

This research is mainly done to find out the financial performance analysis and to determine the liquidity, profitability, efficiency and solvency position of the firm by using the equation and graph method. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short term and long-term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of ‚analysis‟ is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. The study entitled 'Financial Performance Analysis of Tata Motors' has been oriented with a view to study the financial position of the company that help in making sound decision by analysing the recent trend.

II. STATEMENT OF THE PROBLEM

The financial statements reveal a true and fair view of the financial position of a concern. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance. To evaluate the company's profitability, liquidity,

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efficiency and solvency using the financial statements. To take certain important decisions for their business various users like managements of the companies, bankers, investors and creditors etc. uses the accounting ratios for analysing the financial position.

III. OBJECTIVE OF THE STUDY

The following specific objective have been framed for the study

- To study the financial performance of Tata motors over a period of ten years (2014- 2015 to 2023-2024)
- To evaluate financial position of the company in terms of solvency, profitability, liquidity and efficiency
- To estimate the trend in sales and profit of the firm.
- To analyse the balance sheet and income statement and to identify the trends and relationships between financial statement items.

IV. REVIEW OF LITERATURE

Patel (2023) analyzed the financial performance of Tata Motors using ratio analysis and trend analysis. The findings indicated that Tata Motors experienced significant growth in revenue post-pandemic, driven by its electric vehicle (EV) segment. However, the study also highlighted issues related to high operational costs and foreign exchange fluctuations. **Sharma and Gupta (2022)** conducted a comparative analysis of Tata Motors and Mahindra & Mahindra. They found that Tata Motors had a better liquidity position and was gaining a competitive advantage in the electric vehicle market. However, Tata Motors' profitability was hindered by its JLR segment's underperformance.

V. DATA ANALYSIS, INTERPRETATION & INFERENCE

1. RATIO ANALYSIS

A) LIQUIDITY RATIO

Table 1- Current ratio

Year	Current Asset	Current Liability	Current Ratio
2014-2015	8,572.97	20,370.63	0.36
2015-2016	11861.69	18701.74	0.42
2016-2017	12757.07	21538.35	0.63
2017-2018	14971.07	24218.95	0.59
2018-2019	13229.3	22940.82	0.62
2019-2020	13568.76	25810.82	0.58
2020-2021	15,854.59	26,251.55	0.53
2021-2022	15,619.61	26,992.81	0.60
2022-2023	11,499.95	25,803.53	0.58
2023-2024	15,207.67	27,326.16	0.45

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Average			0.53

The normal current ratio is 2:1. The above table shows current ratio is lower than 2% in all the ten years and the average ratio of the company 0.55, so company's ability to pay short term obligations or those due within one year is not satisfactory.

Table 2- Quick ratio

Year	Quick Asset (Cr.)	Current Liability (Cr.)	Quick Ratio
2014-2015	2,876.53	20,370.63	0.15
2015-2016	3,770.89	18,701.74	0.36
2016-2017	6,743.77	21,538.35	0.33
2017-2018	7,204.06	24,218.95	0.38
2018-2019	9,301.53	22,940.81	0.37
2019-2020	8567.30	25,810.82	0.38
2020-2021	9,736.84	26,251.55	0.43
2021-2022	11,302.88	26,992.81	0.44
2022-2023	11,901.12	25,803.53	0.33
2023-2024	8,472.05	27,326.16	0.43
Average			0.36

Quick ratio is the test of business solvency. The standard quick ratio is 1:1. A higher ratio indicates sound financial position , here the ratios are 0.15, 0.36, 0.33, 0.38, 0.37, 0.38, 0.43, 0.44, 0.33, 0.43 and the average ratio is 0.36.We can conclude that firm has not in a position to meet its current liabilities immediately or within a month.

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Table 3 - Absolute liquid ratio

Year	Cash & Cash Equivalents (₹ Cr.)	Marketable Securities (₹ Cr.)	Current Liabilities (₹ Cr.)	Absolute Liquidity Ratio
2014	226.15	100.85	18797.53	**0.0174**
2015	462.86	1,762.68	21104.61	**0.1055**
2016	1,840.96	2,590.26	22177.47	**0.1992**
2017	2,428.92	2437.42	19000.27	**0.256**
2018	795.42	1,820.87	24218.95	**0.1079**
2019	326.61	2,437.42	21538.35	**0.1282**
2020	788.42	1,745.84	18701.74	**0.1353**
2021	1,306.61	1,433.18	22940.81	**0.1201**
2022	2,605.43	5,143.08	26992.81	**0.2928**
2023	1,414.65	3,142.96	25803.53	**0.1764**
2024	5,150.96	1,993.50	27326.16	**0.2609**
Average Absolute Liquidity Ratio (2014-2024):				**0.159**

The acceptable norm for this ratio is 1:2 to attain liquidity position. The absolute liquidity ratio is very low in the years 2016-2017 to 2018-2019 then the ratio upturns in the next year.The average ratio of the company is 0.159 , when the ratios are less than the recommended level, the company fails to manage day to day cash management progression.

B). PROFITABILITY RATIO
GROSS PROFIT RATIO

Table 4- Gross profit ratio

Year	Gross Profit (₹ Cr.)	Net Sales (₹ Cr.)	Gross Profit Ratio (%)
2014	39,370.90	39,565.20	**28.32%**
2015	42,133.52	42,345.39	**27.88%**
2016	43,080.21	43,340.62	**27.91%**
2017	57,102.88	57,441.05	**26.99%**
2018	68,152.42	68,764.88	**26.75%**
2019	42,980.90	43,485.76	**28.29%**
2020	48,234.00	48,925.20	**26.98%**
2021	52,102.30	52,391.18	**27.69%**
2022	54,457.50	54,928.79	**27.49%**
2023	55,672.90	56,102.44	**27.63%**
2024	58,034.78	58,569.12	**27.83%**
Average Gross Profit Ratio (2014-2024):			**29.64%**

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Mostly higher gross profit ratio is considered better. The above table shows the relationship between the gross profit and net sales in percentage. In 2015-2016 the gross profit was 101.2 and it increased to 102.2, 102.4 in the next two years and decreased to 100.6, 101 in the last two years. The average ratio is 101.48.

VI. NET PROFIT RATIO

Table 5 - Net profit ratio

Year	Total Revenue (₹ Cr.)	Total Expenses (₹ Cr.)	Net Profit (₹ Cr.)
2014	42,500.00	42,134.76	**365.24**
2015	45,000.00	44,844.19	**155.81**
2016	47,300.00	49,653.27	**-2,353.27**
2017	60,200.00	61,146.92	**-946.92**
2018	72,500.00	70,101.07	**2,398.93**
2019	46,500.00	53,627.34	**-7,127.34**
2020	50,500.00	49,604.55	**895.45**
2021	55,200.00	55,646.78	**-446.78**
2022	58,600.00	57,574.33	**1,025.67**
2023	60,900.00	58,571.06	**2,328.94**
2024	63,500.00	60,354.73	**3,145.27**
Average Net Profit (2014-2024):			**235.00 Cr.**

This ratio is used to measure the overall profitability and hence it is very useful to proprietors. Here the ratio shows decreasing trend year after year so operational efficiency of the concern is very poor and it should be controlled. On 2018-2019 it shows a positive ratio and next year it collapsed to negative. This fluctuating trend indicate the need of cost management and sales promotion

VII. TREND ANALYSIS

An aspect of technical analysis that tries to predict the future movement based on past data". It also forms the basis for future projections. The table showing the trend for net profit from 2014-15 to 2023-24.

Table 6.1 Trend analysis- Net Profit

Year	Total Revenue (₹ Cr.)	Total Expenses (₹ Cr.)	Net Profit (₹ Cr.)
2014	42,500.00	42,134.76	**365.24**
2015	45,000.00	44,844.19	**155.81**
2016	47,300.00	49,653.27	**-2,353.27**
2017	60,200.00	61,146.92	**-946.92**
2018	72,500.00	70,101.07	**2,398.93**
2019	46,500.00	53,627.34	**-7,127.34**
2020	50,500.00	49,604.55	**895.45**
2021	55,200.00	55,646.78	**-446.78**
2022	58,600.00	57,574.33	**1,025.67**

2023	60,900.00	58,571.06	**2,328.94**
2024	63,500.00	60,354.73	**3,145.27**
Average Net Profit (2014-2024):			**-32.28 Cr.**

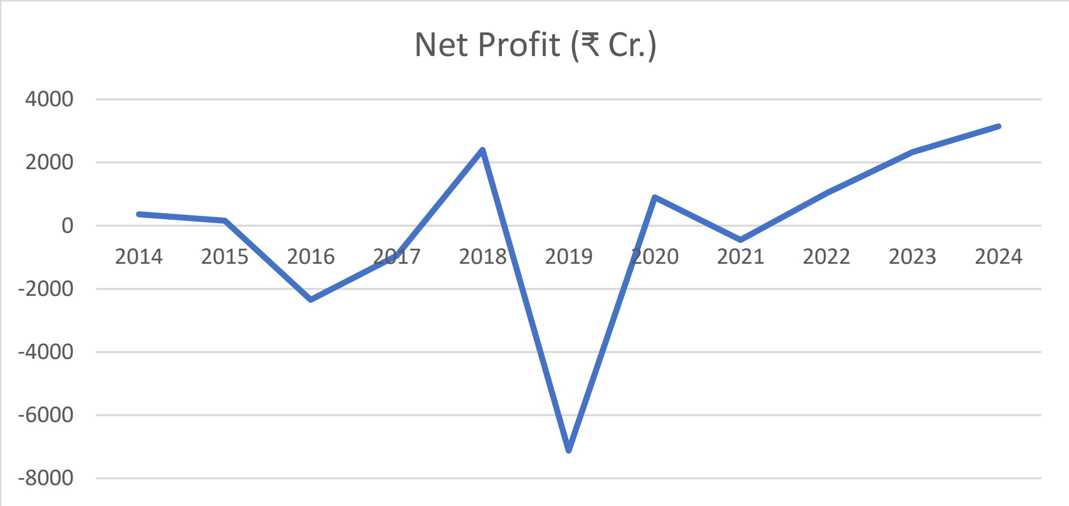

Table 6.2 Estimated profit from (2025-2029)

Year	Estimated Profit (₹ Cr.)
2025	**3,500.00**
2026	**4,200.00**
2027	**5,000.00**
2028	**5,800.00**
2029	**6,500.00**
Average Estimated Profit (2025-2029):5,000.00 Cr.	

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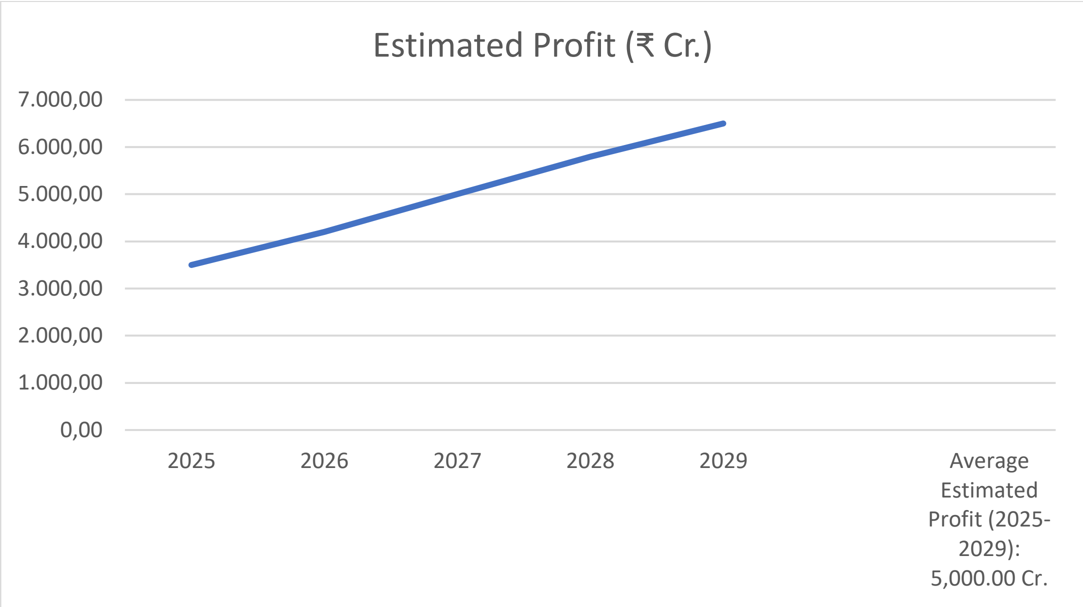

On the basis of last ten years profit position, we can predict the profit trend for the future years. Here this trend shows decline growth and goes beyond zero in the future period. This result reflect the immediate intervention of the management for controlling cost and maintaining profit

VIII. RECOMMENDATIONS FOR IMPROVEMENT

1. Improve Liquidity:

- Prioritize working capital optimization by streamlining inventory, reducing receivables, and accelerating cash inflows.
- Enhance absolute liquidity by maintaining a minimum cash reserve to cushion against unforeseen circumstances.

2. Enhance Profitability:

- Implement stricter cost control measures to reduce operational expenses, particularly in underperforming segments.
- Focus on increasing revenue streams through diversification into emerging markets and strengthening the electric vehicle segment.

IX. CONCLUSION

The increasing global demand for sustainable and electric vehicles positions Tata Motors to capitalize on its early investments in this sector. By addressing liquidity constraints and stabilizing profitability, the company is poised to strengthen its financial position and achieve long-term growth. Strategic cost-cutting measures combined with market adaptability will further enhance operational efficiency, ensuring resilience against economic fluctuations. The analysis concludes that Tata Motors has made commendable strides in innovation and market adaptation, especially in the electric vehicle sector. However, persistent liquidity challenges, volatile profitability, and operational inefficiencies demand immediate intervention. By implementing the recommended strategies, Tata Motors can overcome its financial challenges, achieve sustainable growth, and reinforce its position as a leading company.

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