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Review Article

AN ANALYTICAL STUDY OF PROFITABILITY POSITION OF TATA MOTORS

***Behzad Pagheh**
Department of Arts, Social Sciences & Commerce, Bharati Vidyapeeth University, Pune, India
**Author for Coresspondence*

ABSTRACT
This paper attempts to get the analytical view of financial performance of Tata Motors. For this purpose the financial condition of Tata Motors between 2008 and 2012 is undertaken. Profitability ratios determine 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.

Keywords: Profitability Position, Gross Profit Margin, Net profit Margin, Return on Assets, Tata Motors

INTRODUCTION
Financial statements are the statements which render information about the financial position as well as profitability of the business at the end of accounting period to its different users. Financial statements comprise different facts and figures and it depends on the users to survey whether these facts show good or bad managerial performance. For this, the analysis of financial statements is necessary. Ratio analysis, comparative financial statements, common size statement, Du-Pont analysis and trend analysis can be introduced as the important techniques of analyzing of financial analysis. Tata Motors as the India's largest automobile company, plays an important role in the economy. Therefore, assess the financial performance of this firm seems necessary.
Financial analysis is the procedure of recognizing the financial strengths and weakness of the company from the available accounting data and financial statements. In other words, the financial statements analysis is a process of evaluating relationship between component parts of financial statements to gain clear and better perception of the company's position and performance. Profitability ratios are the most popular metrics used in financial analysis. They are "the class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well." (Investopedia, no date).
Profitability is the initial aim of all business ventures. Without profitability the business cannot survive in the long term. Therefore, measuring current and past profitability as well as projecting future profitability is very significant. Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities (Study, no date).

Objectives of the Study
—To compare and analyze the financial statements for the past five financial years (2008-2012)
— To know the Profitability & Financial stability position of Tata Motors.

Review of Literature
Entrepreneurs face variety of problems in an endeavour to setup new enterprise particularly during the growth phase of the organizational life cycle. Growth obstacles and problems of the entrepreneurs have

been studied by many researchers and provided detailed solutions. In this regard example Characteristics like background, capability, education, business skills, entrepreneurial goals and growth aspirations.

Hotwani (2001) indicates on his article 'Profitability Analysis of Tata Motors' that the firm has created significant wealth for its stakeholders and provided hand some return on investment (Hotwani, 2001). Return on net worth has been less than 10% within 2 years. However, inner strength of the firm is mentionable. Besides the firm can increase its profitability via optimum capital gearing and decrease in administration as well as financial expenses.

Amsaveni & Gomathi (2013) analysed the fundamental analysis of BSE listed FMCG companies for a period 2006-07 to 2011-12. Researchers has studied economic, industry and company analysis and found that from economic analysis, GNP, Inflation, Interest rates, Exchange rate foreign exchange reserves, Agricultural production, Government Receipts and expenditure has a positive growth rate during the study period and growth domestic product, gross domestic capital formation savings and balance of payments has negative growth rate during the study period (Yadav, 2014)

Methodology

The study has been undertaken for the period of 5 years from 2008 to 2012 of Tata Motors. In order to analyze financial status in terms of Profitability. The data is secondary in nature and the information for questionnaire and interview is obtained from published material such as text books, Journals, Magazines, Newspapers, Articles and the published annual reports of Tata Motors which are considered as expert opinions in this field. The primary sources data will collect first hand information from respondent in TATA MOTORS the questionnaire and oral interview will conducted by the researcher for collection of requisite data. This will be got from management and non management staff. In order to comment upon the profitability position of the company, data is analyzed via various profitability ratios and statistical techniques.

Profitability Ratios Analysis of Tata Motors

A profitability ratio is a measure of profitability, which is a way to measure a company's performance. Profitability is simply the capacity to make a profit, and a profit is what is left over from income earned after you have deducted all costs and expenses related to earning the income. For most of these ratios, having a higher value relative to a firm's ratio or the same ratio from a prior period indicates that the company is performing well. Some examples of profitability ratios are profit margin, return on assets and return on equity.

RESULTS AND DISCUSSION

Profitability ratios

1. Gross Profit Margin

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

Interpretation

When compared the ratios for 4 years it can be seen that the sales has been increased drastically in 2010, thus leading to an ***increase in expenditure*** & ***profit*** simultaneously. Due to 4.5 % (approx.) change in sales, the manufacturing & other expenses[Sh.B] have gone up such as ***Employee cost*** (increased to 12.9% (approx.)) affecting the profit margin ***inversely.***

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Table 1: Gross Profit Margin **(Amount in Crores)**

	2008		**2009**		**2010**		**2011**		**2012**	
Gross Profit	2337.18	**13.29**	2868.80	**13.73**	3557.56	**12.95**	3575.50	**12.44**	2678.41	**10.44**
Net sales	17585.22		20891.31		27470.03		28730.82		25660.79	

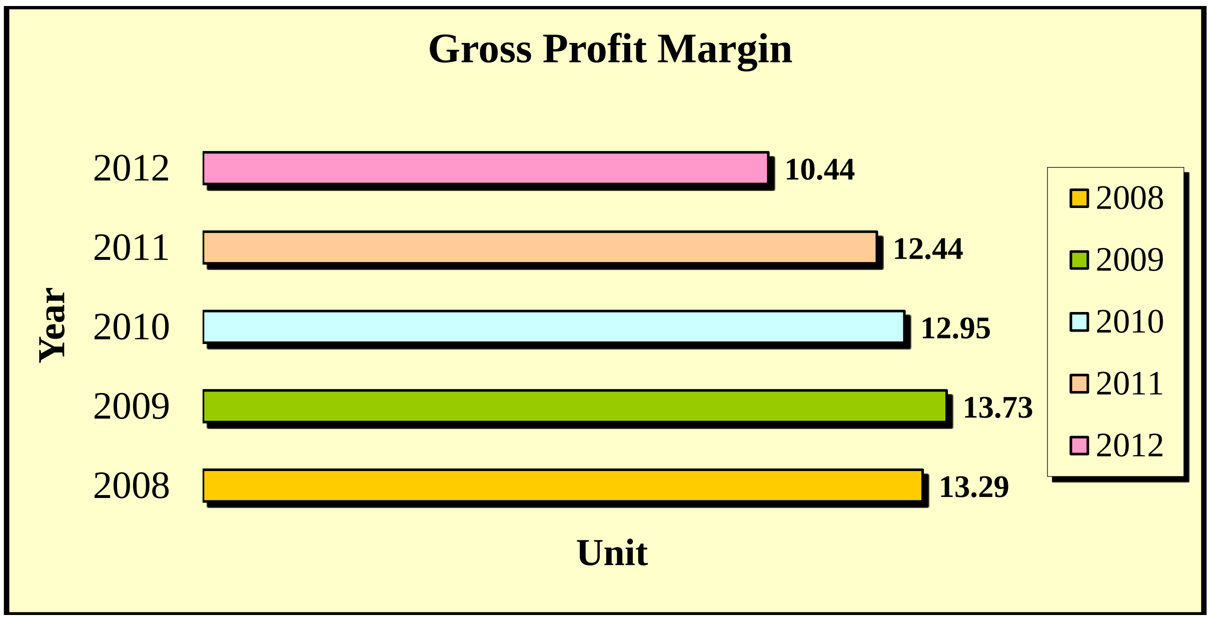

Figure: 1

2. Operating Profit Margin

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

Table No.2 Operating Profit Margin **(Amount in Crores)**

	2008		**2009**		**2010**		**2011**		**2012**	
Operating Profit	2171.09	**12.35**	2579.69	**12.35**	3312.37	**12.06**	3092.32	**10.76**	3092.32	**12.05**
Net sales	17585.22		20891.31		27470.03		28730.82		25660.79	

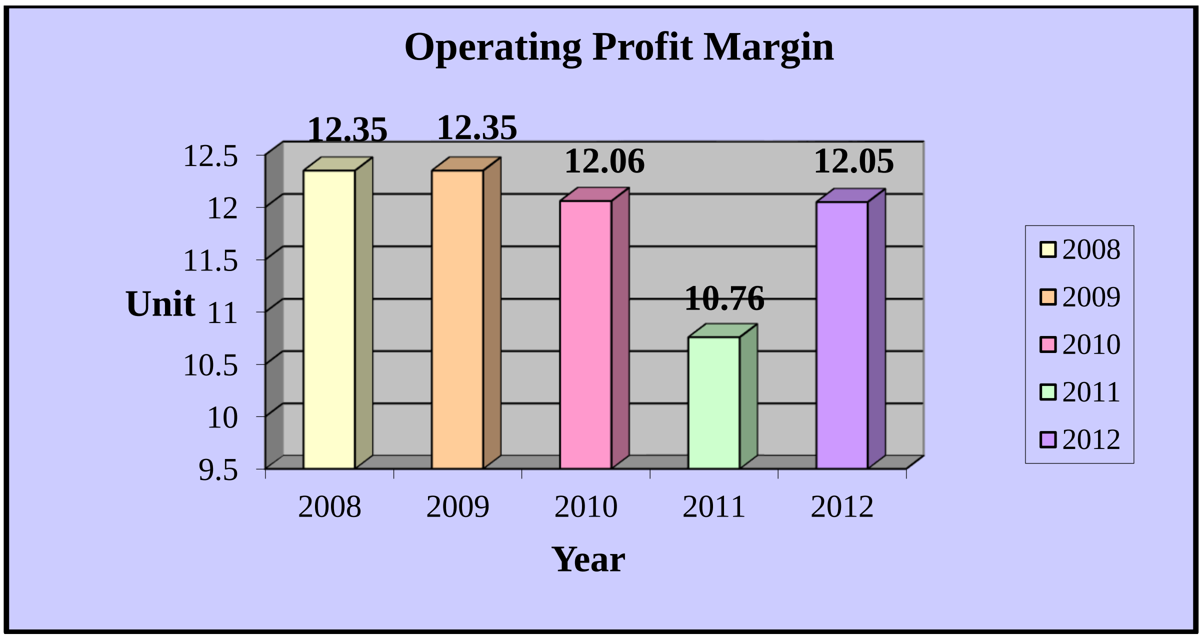

Figure: 2

Interpretation

The company's margin were under pressure during the year due to ***rising interest rates***, constraints in availability of ***vehicle financing from outside*** & unprecedented ***increase in the prices of raw materials.*** The EBDITA margin at 10.8% was lower than last year as increase in input cost could only be partially absorbed by the market. [Director's report- pt 3]

3. Net profit margin

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

Table: 3 Net Profit Margin **(Amount in Crores)**

	2008		2009		2010		2011		2012	
Net Profit	1236.95	**7.03**	1528.88	**7.32**	1913.46	**6.97**	2028.92	**7.06**	1001.26	**3.90**
Net sales	17585.22		20891.31		27470.03		28730.82		25660.79	

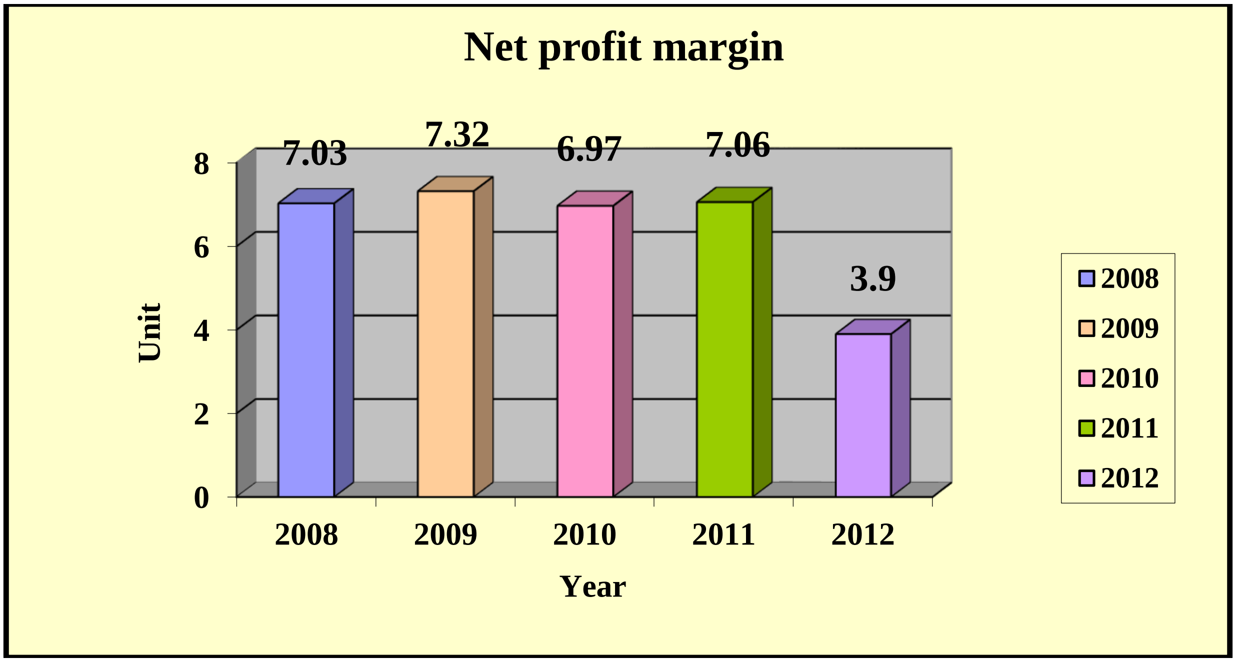

Figure: 3

Interpretation

In the year 2011 sales has increased effectively as a result of positive changes in ***Sale of Product/Services***, ***Trade Investments***, ***Profit on sale of current investments*** & profit on sale of ***investments in subsidiary companies*** as HVAxles etc. [Sh.A1,A2] Similarly, Net profit has increased due to ***reduction in Tax Expenses***[Sh.14-3-c] & ***Interest.*** However change in sales (**4.59% approx.)** is less than that of Net Income (**6.03% approx.**) as a result of which the ratio shows positive trend.

4. Return on Assets

$$\text{Return on Assets} = \frac{\text{EBIT}}{\text{Total Assets}}$$

Table: 4 Return on Assets **(Amount in Crores)**

	2008		**2009**		**2010**		**2011**		**2012**	
EBIT	1806.05	**25.18**	2279.73	**25.06**	2886.25	**24.74**	2858.84	**18.94**	1687.44	**6.39**
Total Assets	7172.09		9096.45		11665.72		15.95.74		26425.64	

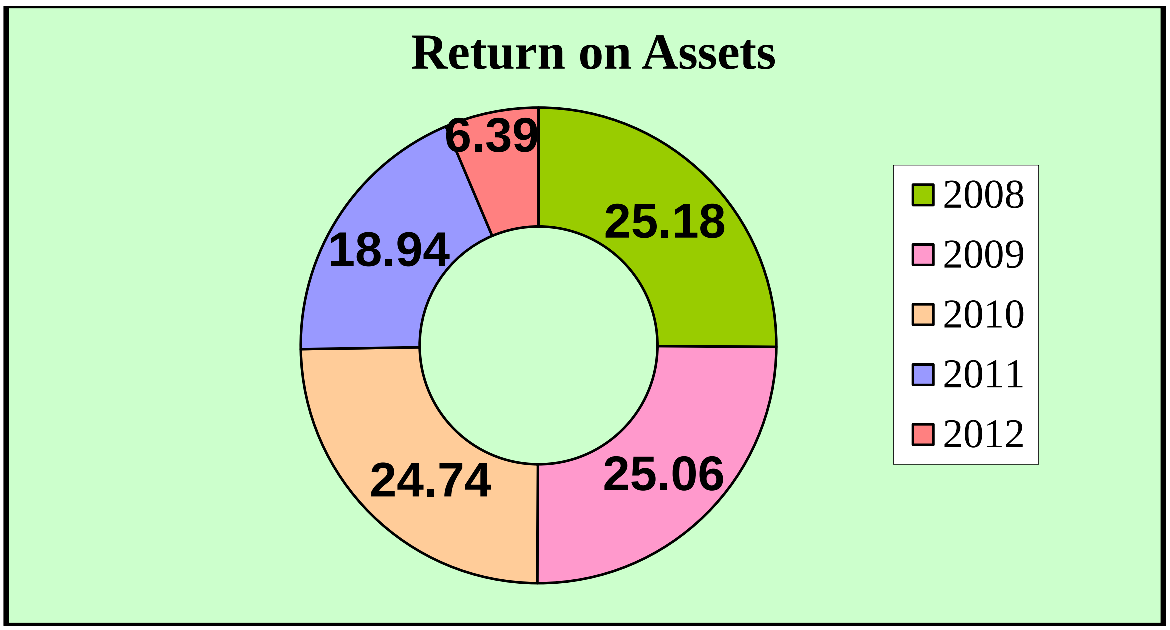

Figure: 4

Interpretation

Similar to the Net Profit Margin the ratio has been decreased as a result of ***lesser increase*** in numerator as compared to that of denominator. Here, ***Fixed Assets have increased*** due to the elements such as Building, Plant & Machinery equipments, Furniture & Fixtures, IT Assets and Plant taken on lease etc.[Sh.5]. In addition to it, Investments [Sh.6] like Investments in Joint Venture, Investments in Mutual Funds etc. have also increased leading to increase in Total Assets.

5. Return on Equity

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders' Equity}} \times 100$$

Table: 5 Return on Equity **(Amount in Crores)**

	2008		2009		2010		2011		2012	
Net Income	1236.95	**30.09**	1528.88	**27.61**	1913.46	**27.85**	2028.92	**25.88**	1001.26	**8.19**
Share-holders Equity	4111.39		5537.07		6869.75		7839.80		12230.15	

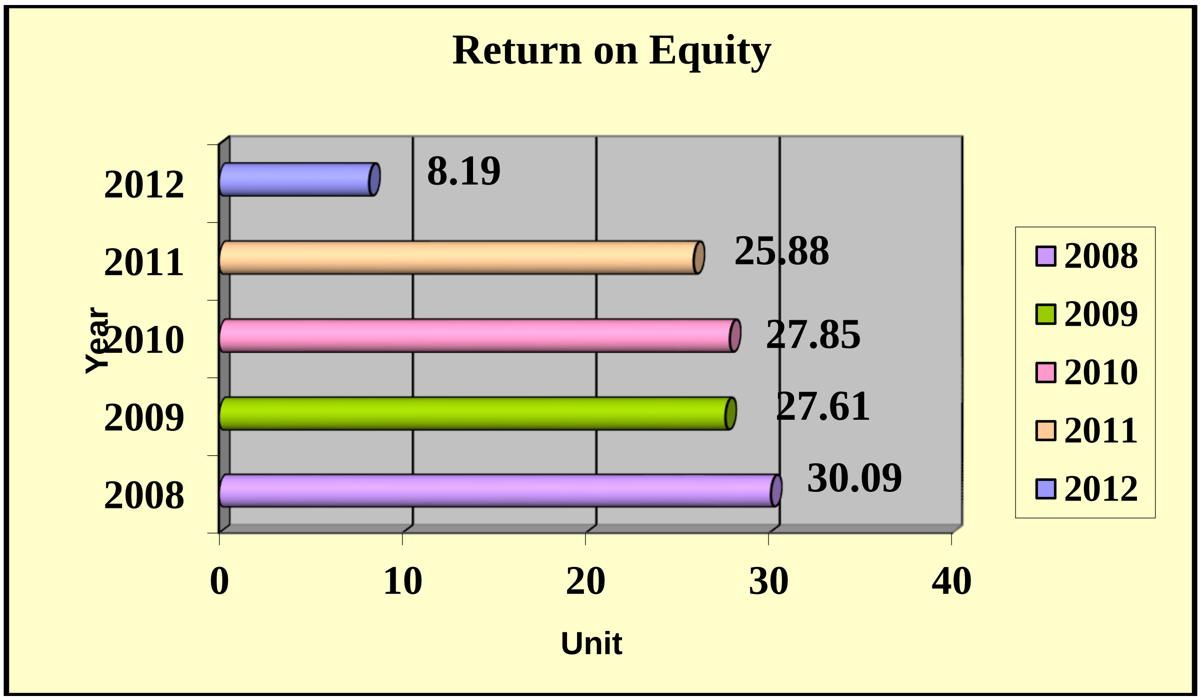

Figure: 5

Interpretation

As it can be seen from the graph Net Income has increased considerably as mentioned in the earlier ratio. In addition to it an increase ***in Reserves & Surplus*** [Sh.2] by 1000 crores (approx.) has caused an upward trend in Shareholder's Equity. However this increase is only by 100 crores (approx.) as compared to General Reserves thus leading to a fall in Return on Equity ratio.

6. Return on capital employed

$$\text{Return on capital employed} = \frac{\text{EBIT}}{\text{Capital employed}}$$

Table: 6 Return on Capital Employed **(Amount in Crores)**

	2008		2009		2010		2011		2012	
EBIT	1806.05	**27.34**	2279.73	**26.90**	2886.25	**26.53**	2858.84	**20.25**	1687.44	**6.64**
Capital Employed	6606.81		8473.91		10878.89		14120.02		25395.71	

Figure: 6

Interpretation

The reasons behind increase in Capital Employed can be stated as follows: Increase in Reserves & Surplus [Sh.2] by 1000 crores (approx.). Increase in Unsecured loans [Sh.4] due to an increase in Foreign Currency Convertible Notes(FCNN) & CARS by 1896.34(approx.) along with an addition in commercial papers by 100 crores(approx.) . As compared to Capital Employed, EBIT ***has not increased much*** thus ratio has taken the negative trend.

Discussion and Conclusion

As can be seen, in the study of profitability and financial performance of Tata Motors, it is clear-cut that the firm's financial performance is acceptable and satisfactory. The firm has steady growth and it is indicates 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. According to aforesaid information, in 2010 the sales has been rise remarkably, therefore, it leads to increasing in expenditure & profit simultaneously. Again in 2011, as a result of some positive changes, sales have increased significantly. As well, Increase in Reserves & Surplus and Fixed Assets as well as growth in unsecured loans due to foreign currency rise is mentionable

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