

A Comparative Study of Financial Statements of Tata Motors and Mahindra & Mahindra Ltd. Company for the financial years 2021-22 and 2022-23

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Abstract

India is the world's third largest car market. Indian Auto sector is still far behind other Asian countries. Prices of vehicles in India continued to rise due to rise in the cost of inputs. Home grown brands of cars in India have performed very well in Indian markets. If such brands have to remain competitive in market they have to focus on electric vehicles. Tata Motors and Mahindra & Mahindra Ltd. is working hard to capture electric vehicle market in India. Tata Company has incurred a loss in the year 2021-22 but made profit in the year 2022-23 but Mahindra & Mahindra is a profit making company in both the years. Liquidity condition of Mahindra & Mahindra is also better than Tata Motors. It would be preferable to buy Mahindra & Mahindra Shares in long as well as short run but it would be preferred that Tata Motors shares could be bought for the long run.

Keywords: *Auto sector, financial analysis, accounting ratios, Quantitative data, Future prospects*

Introduction

Companies of auto sector earn the revenue through manufacturing and selling the automobiles. Sale of spare parts is yet another source of revenue for the companies. After sales service are also the paid services given by the companies. Commercial vehicles, tractors, two wheelers, passenger vehicles are different categories in which automobile sector works. Raw materials are one of the major expenses of this sector. Volatility in the prices of vehicles is due to the changes that take place in the prices of raw materials. Management of the cost is one of the challenges that vehicle companies face. Companies can achieve the scalability only when the margins of the company improve.

There is a domination of big players in the automobile sector. It takes lot of time for a small player to become a big player in this sector due to high competition. Existence of the company in this sector depends on operating capacity and capacity utilization. There is no use of the capacity if there is no demand for the product in the market. This industry is very capital intensive. Companies have to do a lot of capital expenditure for production. Foreign automobile companies have also become very active in the Indian market. Customers in the Indian markets are very price sensitive. Little changes in the prices of the product make a big effect on the demand of the product.

The research focuses on the performance of the two companies i.e. Tata Motors and Mahindra & Mahindra Ltd. Company. Both companies are very active in the Indian Automobile sector from many years. Both the companies have released many successful car models in the Indian market. These companies hold the reputation of doing innovation regularly and releasing new products as well as upgrading the existing ones. Performance of the companies is analyzed as shares of both the companies are listed on the stock exchange. Because of being listed and holding a good reputation in the market it is important to track their performance in last two years and comment upon its performance in the coming years. Techniques of analysis would serve the purpose of analysis.

Two automobile companies are selected by the researchers to perform the analysis of the automobile industry (Tyagi, 2022). It becomes very simple to calculate the ratios, percentage, differences, etc. when we are performing analysis. Comparison of two ratios, two percentages and two differences is very helpful in understanding the trend.

Literature Review

- Analysis of the financial statements helps in determining the profitability and financial strength of the company (Allad, 2017). It is very important for an investor to know if a company is regularly making profit or not. Regularity in the profits ensures an investor about the future prospects of making profits by the company. Many a times we see that the company is not declaring dividend even if they are making profits the possible reason could be the expansion phase of the company or company is intending to give bonus shares. Strong financial base of the company is very important to ensure the profitability in future as with the help of strong financial base company would generate assets that would be used to generate profit which would be distributed by the company in the form of dividend.
- The reliable secondary data for the research could be got from the audited financial statements of the company which are published on various mediums (Kapoor, 2019). Audit of the financial statements provides an authenticity to the results that are published. It is required to audit the financial statements with the help of an independent expert who is a Chartered Accountant in India within a meaning Chartered Accountancy, 1949. Audit of the financial statement increases the confidence of the user on the information that is reflected in the financial statements. Financial Statements provides a static picture of the operations that has taken place at the end of the financial year. Financial Statements of successive years are available for performing trend analysis.
- Analysis of the financial statements is helpful for the management in creating the variations for approaching the new and complex situations that have arisen in the business (Dusan Baran, 2016). Financial Statement Analysis is helpful for both internal as well as external parties. For internal parties like management of the company it is helpful in taking the informed decision about proper utilization of the scarce resources available with the enterprise. External parties like prospective investors would be able to make out the decision to whether invest in particular company or not.
- In spite of the fact that prices of various product of the company are decreasing still the company is able to increase or maintain its market share (Lakshmi, 2015). Such valuable insights could be got from the analysis of the financial statements. By analyzing the prices of the product it could be depicted that because of the rising competition in the market the company has to reduce the per unit

prices of the product. The possible result of it could be the decrease in the total sales of the company. Exceptionally there is rise in the sales which shows that the market share of the company has increased. Such a conclusion could not have been made if analysis of profit and loss account was not done.

Research Methodology

Research Objectives:

1. To know about the Auto sector.
2. To analyze the financial position of the selected Auto companies.
3. To compare the financial position of the selected Auto companies.

Sampling Frame

Sample Size: The Sample population for the study is Auto companies.

Sampling Unit: The sampling units consist of 2 companies-

1. Tata Motors
2. Mahindra and Mahindra Ltd.

Research Design

The present study is the descriptive study which tries to analyze the financial position of the Auto sector companies. The research undertaken was quantitative research as it was concerned with numerical, knowledge of statistics and use of graphs and tables.

Data Collection

The data used for this research is the secondary data collected from the websites of the companies.

Sources of Data

1. Annual Balance Sheet of the companies
2. Review of Literature
3. Journals and Articles

Instruments and Tools used

Tools like financial ratios would be used for the analysis.

Time Period of the Study

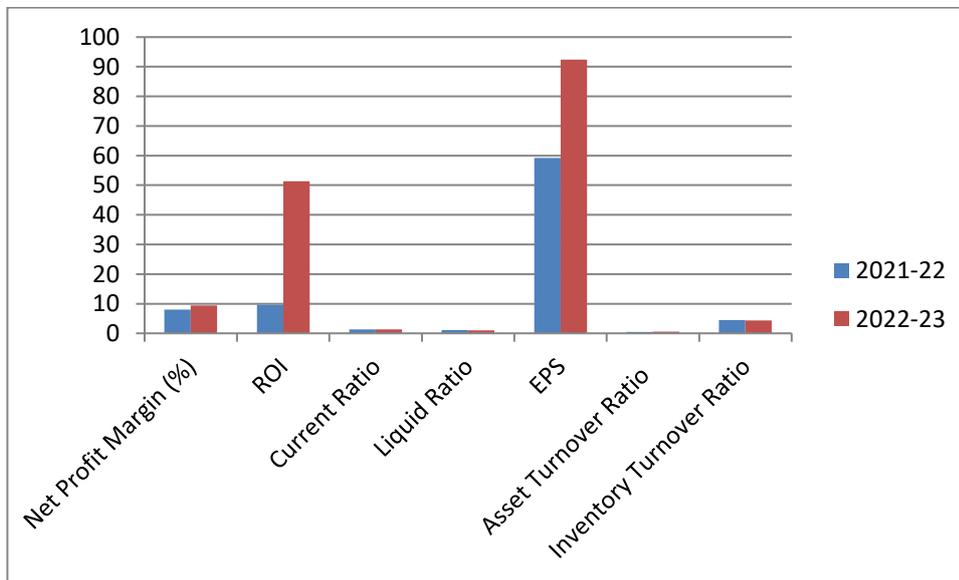
2021-22 & 2022-23

Analysis of Data

Tata Motors

Table 1- Accounting Ratios of Tata Motors

Year	Net Profit Margin (%)	ROI	Current Ratio	Liquid Ratio	EPS	Asset Turnover Ratio	Inventory Turnover Ratio
2021-22	-4.06%	-9.8%	0.975	0.741	(29.88)	0.832	5.09
2022-23	0.68%	45.8%	0.977	0.714	6.39	1.02	5.5

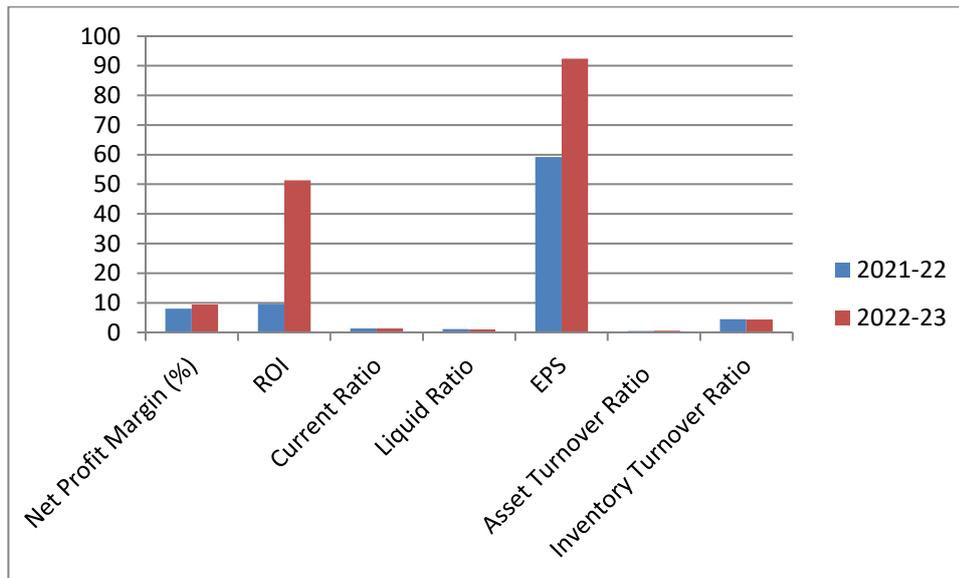


Graph given above shows the comparison of the changes in the financial ratios that have taken place from 2021-22 to 2022-23.

Mahindra and Mahindra Ltd.

Table 1- Accounting Ratios of Mahindra and Mahindra Ltd.

Year	Net Profit Margin (%)	ROI	Current Ratio	Liquid Ratio	EPS	Asset Turnover Ratio	Inventory Turnover Ratio
2021-22	8.04	9.67	1.33	1.12	59.2	0.51	4.46
2022-23	9.37	51.36	1.29	1.05	92.41	0.58	4.38



Above graph shows the comparison of accounting ratios between the year 2021-22 and 2022-23.

Findings

Following were the findings on comparing the ratios of the two companies i.e. Tata Motors and Mahindra & Mahindra Ltd.:

- Net Profit of the Tata Motors Company has turned from loss to profit from the year 2021-22 to 2022-23 but the change that has taken place was not appreciable. Net Profit Margin of Mahindra & Mahindra is much better in comparison to Tata Motors and it has increased also. Here we could say that from the point of view of investor we should invest in Mahindra & Mahindra Company in comparison to Tata Motors.
- There is negative return on investment in case of Tata Motors for the year 2021-22 which has changed a lot the next year and that was highly appreciable that if the trend follows company could perform much better but if volatility is concern it would be risky to invest in Tata Motors. Mahindra & Mahindra return on investment was already positive and it has also shown the great increase in the next year which means that may be the entire sector has performed well. If volatility is concerned the shares price of both the companies are highly volatile. It would be preferable to purchase Mahindra and Mahindra in comparison to Tata Motors.
- Current Ratio of Tata Motors Company is less than 1 in comparison to ideal ratio which should be 2:1. The ratio has increase from 2021-22 to 2022-23 but still it is far behind the ideal ratio. Current Ratio of Mahindra & Mahindra is more than 1 but still it is lesser than the ideal ratio. As far as condition of the Current Ratio is concerned condition of Mahindra & Mahindra Ltd. is much better than Tata Motors.
- Liquid Ratio for Tata Motors is less than 1 which is not a good sign for the liquidity of the company. Condition of Liquidity became worse from the year 2021-22 to 2022-23. Liquidity Ratio for Mahindra & Mahindra Company is more than 1 for both the years which depicts that the company has got enough potential to fulfill its short term obligations. But excess of liquidity

in the business is also not good as it is considered as loss of interest for the company. Liquid Ratio of the company has decreased from the year 2021-22 to 2022-23 which is a good sign as the company is moving towards optimum liquid ratio of 1:1. Optimum liquid ratio indicated the proper availability of the liquid assets with the company in comparison to current liabilities of the business.

- Earnings per Share of Tata Motors are negative for the company for the first year and in the next year its condition improved but not much. Negative EPS was the result of loss to the company in the year 2021-22. Earnings per share for Mahindra & Mahindra were very high for the years in comparison to Tata Motors. It could be a decision making point for a prospective investor that he could make the decision for purchasing the share of Mahindra & Mahindra because of its high Earnings per Share.
- Assets Turnover Ratio of a company tells about how efficiently the company has used to its assets for the generation of the revenue. Assets turnover ratio of Tata Motors Company is higher than that of Mahindra & Mahindra. It depicts that Tata Motors is much efficient in utilizing its assets then in case of Mahindra and Mahindra. The ratio in both the companies for both the years has increased which shows that both the companies would be making efforts for fully utilizing the available scarce resource.
- Inventory Turnover Ratio shows the rate at which the inventory of the company is replaced. Inventory Turnover Ratio of Tata Motors is better than that of Mahindra & Mahindra which means that the inventory in Tata Motors is getting replaced fast due the increase in the demand of the product in the market. Inventory Turnover Ratio of Mahindra and Mahindra is also not that much less. It implies regular activities of production going on in the business.

Conclusion

In conclusion we could say that Tata Motors and Mahindra & Mahindra both the companies are very reputed companies. There is no doubt in purchasing any of the shares that belong to these two companies. The ratios of the companies may fluctuate from time to time. But the indications that the ratios are giving could not be ignored. Current position of the ratios of the two companies and the changes that are taking place in the ratios in two successive years i.e. 2021-22 and 2022-23 depicts that financial condition of Mahindra & Mahindra Company is better than Tata Motors. Prospective investor for short run and long run could prefer to buy Mahindra & Mahindra Company Shares but for the long run growth they could prefer to take Tata Motors Shares.

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