

QUALITY ORIENTATION TO EVALUATE FINANCIAL PERFORMANCE OUTCOMES

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ABSTRACT

There is a consensus that the business reporting model needs to expand to serve the changing information needs of the market and provides information required for the corporate and other stake holders. It is highly essential for any financial expert to analyse the financial statements of a firm and the three key areas are: 1) The structure of the financial statement 2) The economic characteristics of the industry in which the firm operates and 3) The strategies of the firm pursues to differentiate itself from others.

The role of finance professionals are not ending only on the presentation of numbers and statements, but leadership is becoming more depending on the finance team to provide thoughtful insight and decisions with the information they present. It includes critical thinking skills, financial data analysis and system thinking to improve value added –decision making. The purpose of this study is to demonstrate the association between learning orientation and quality orientation and how it helps to evaluate the financial performance.

Key Words: *Financial Analysis, Critical Thinking, Decision Making, Quality Orientation*

Introduction

The financial performance of the company is analysed mainly based on the financial statement because the accounting biases remain more or less same over time, so meaningful inferences can be drawn by examining trends in raw data and in financial ratios and similar biases characterise various firms in the same industry so it helps for inter firm comparison. Financial statement analysis is the process of reviewing and analysing a company's financial statements to make better economic decisions. These statements include the income statement, balance sheet, and statement of cash flows. Financial statements are used by a variety of stakeholders, such as credit and equity investors, security analyst, managers, regulators, government, public, and decision-makers within the organization. So financial statement analysis involves specific techniques for evaluating risks, performance, financial health, and future prospects of an organization. Financial statement analysis can be done for variety of purpose. It can be simple analysis of the short term liquidity position of the firm, to judge the credit worthiness, for predicting the bankruptcy or to assess the strength and weakness of the firm. Common methods of financial statement analysis include Ratio Analysis, DuPont analysis, horizontal and vertical analysis.

Scope of the study

The scope of the study is very vast but the researcher has taken into consideration only one techniques of financial performance evaluation that is ratio analysis of Tata Motors Ltd (Sample Company)

The objectives of the study is –

- To recognize trends within data to determine potential actions and conclusions
- To determine the most effective ways to present conclusions and data analysis to specific audiences
- To learn to professionally present data analysis and prepare reports that clearly communicate key messages

Methodology

The present study covers one public limited automobile company (Tata Motors Ltd) listed on BSE and NSE. The sample company is selected on a convenient basis and necessary data for study is based on secondary data. The information has been collected from the newspapers and web site. The study has been undertaken for the period of last three years from 2015-18. In order to analyse financial performance in terms of liquidity, solvency, profitability and financial efficiency, various accounting ratios have been used.

Time Series of Financial Ratios

The below table shows the comparison of various financial ratios of Tata Motors Ltd for the last three years with the industry average.

Ratio	Tata motors (2016)	Industry Avg	Tata motors (2017)	Industry Avg	Tata motors (2018)	Industry Avg
Liquidity						
Current ratio	0.51	0.62	0.53	0.53	0.60	0.60
Quick ratio	0.41	0.41	0.42	0.41	0.44	0.44
Leverage						
Debt-equity ratio	0.61	0.63	0.89	0.85	0.81	0.80
Interest coverage ratio	1.27	1.50	-0.28	-1.00	1.01	1.00
Turnover						
Inventory turnover ratio	9.26	10.00	8.83	8.85	9.39	10.00
Debtors-turnover ratio	27.12	25.12	21.24	20.30	20.98	20.98
Fixed-assets turnover	1.36	1.75	1.30	1.75	1.65	1.60
Total-assets turnover	1.26	1.25	1.19	1.50	1.78	1.75

Profitability						
Gross-profit margin ratio	1.44	1.45	-3.21	-3.00	0.35	0.25
Net-profit margin ratio	-0.14	-0.37	-5.48	-5.00	-1.75	-1.60
Return-on assets ratio	68.51	70.1	62.32	65.00	59.40	60.00
Return-on capital-employed	5.38	5.35	-1.11	-1.00	4.84	4.84
Return on equity	5.96	5.90	-1.27	-1.25	5.29	5.3

Source: Money control.com

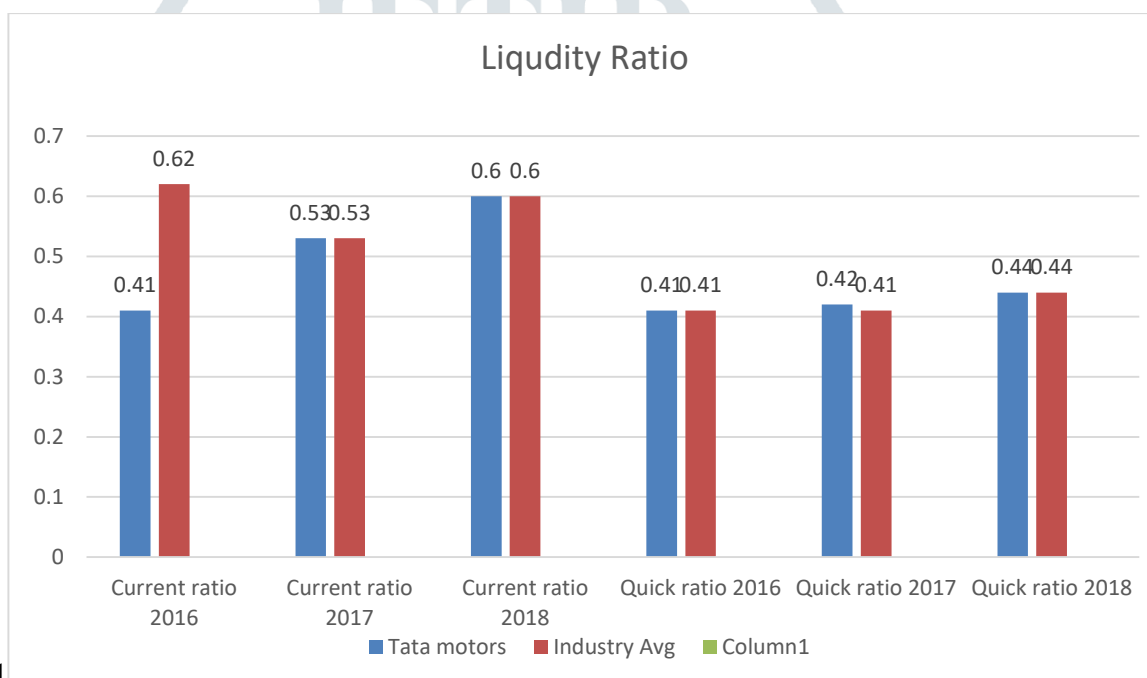


Chart-1

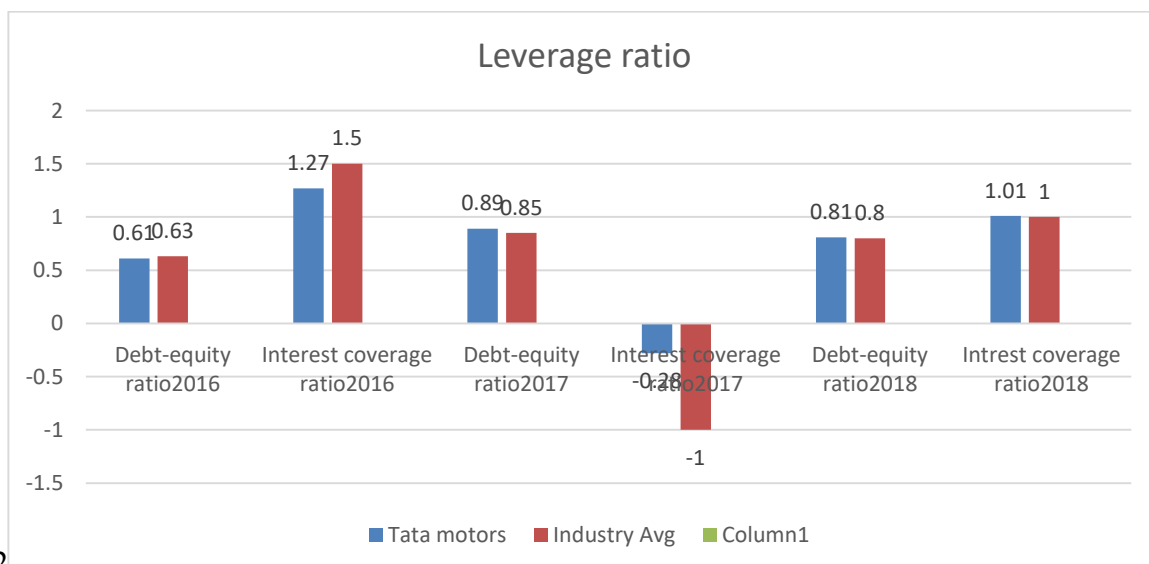


Chart-2

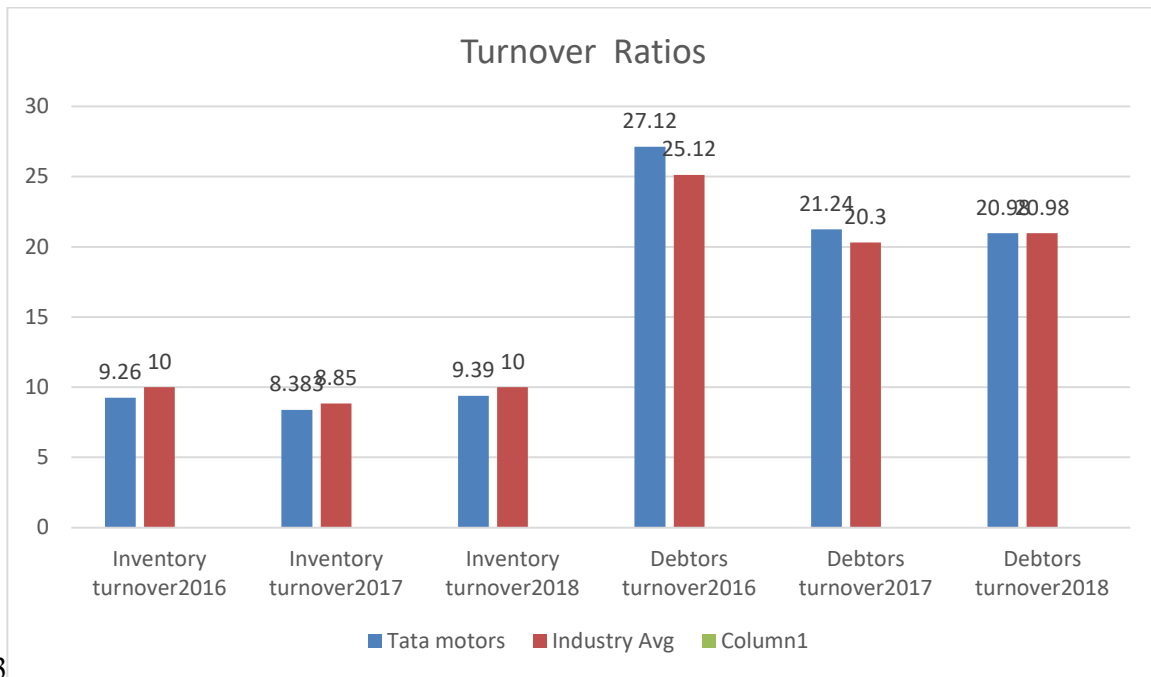


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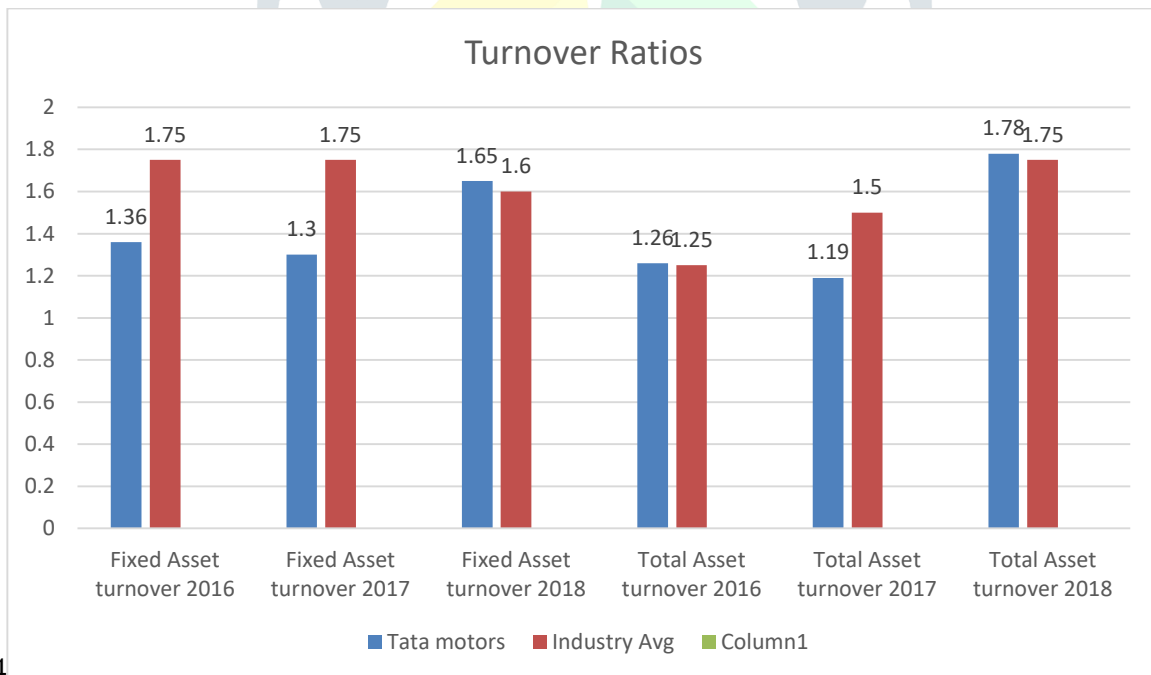


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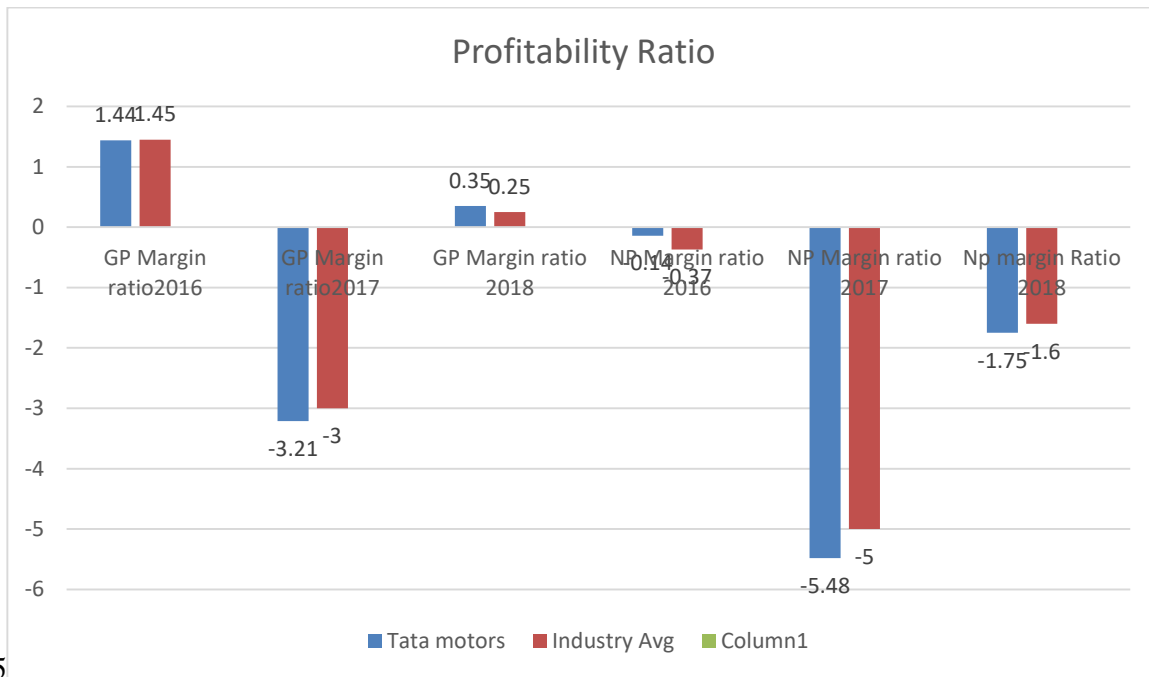
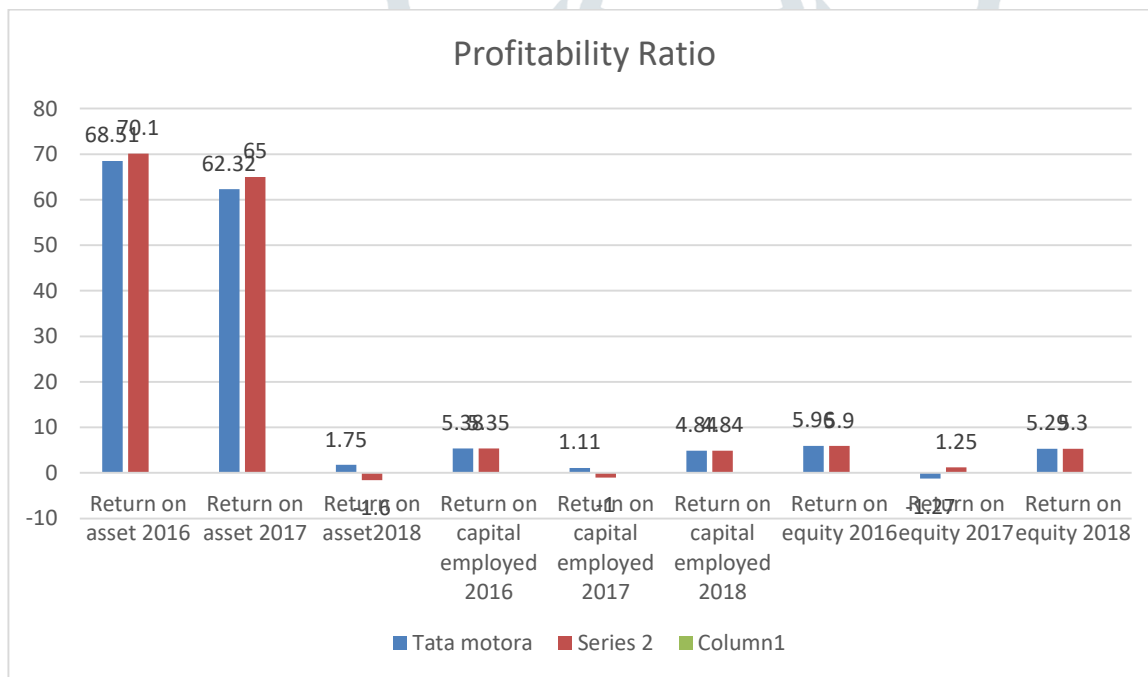


Chart-5

Chart-6



Analysis and interpretation

The analysis of the data shows that liquidity position of the company was much less in the year 2016 as we compare with the industry average but it has increased in the recent years as it is coming par with the industry average and even going better than the average. This shows that company is in par with industry average regarding liquidity.

The leverage ratios of the company are also shows some ups and downs during the last three years, but on an average it keeps moving along with the industry average.

In Turnover ratios like fixed asset and total asset turnover ratios are going much lower than the industry average, but other turn over ratios like inventory and debtor's turnover ratios are going along with the industry average.

Profitability ratios of the company is not much satisfactory, as GP and NP ratios for 2017 and 18 shows negative figures, but during this period the industry average also were negative, so we can say that the company is going along with the industry average. But all other profitability ratios like return on asset, return on capital employed and return on equity is positive and going in par and even better than the industry average.

Application of financial statement

This is the time where we examine how a set of financial ratios may be combined to answer some questions that are commonly raised by financial managers and others.

- **Assessing Corporate Excellence:** -Economic Times gives corporate excellence award for the Company of the year and Emerging Company of the year. For this they consider the following financial indicators in its quantitative evaluation in judging corporate excellence:-
 - Increase in market capitalization over the 12- month period on the date of calculation
 - Increase in revenue over one accounting year
 - Increase in profit after tax over one accounting year
 - Return on net worth
 - Compound annual growth in EPS over past three years
 - Price- earnings ratio
 - Market capitalization
 - Sales for the last financial year
 - Profit after tax for the last financial year

To determine the top twenty companies in each category is based on the combined ranking over the nine indicators which are equally weighted.

- **Judging Credit worthiness:-** For assessing the credit worthiness of a company a number of ad hoc scoring models employing several financial variables have been used. One such model is given in the Exhibit 2. In this model we can assess a company on various factors using points in the range of 0-15 and by looking in to the total points we can judge the credit worthiness of the company.

Exhibit 2.**Credit Scoring Model**

Character	Upto 60 days late	Upto 30 days late	On time	Points
Profit margin				
Quick ratio				
Cash ratio				
Current ratio				
Debt-equity ratio				
Interest earned ratio				
Net worth				
Present assets free				
Market value to net worth				

Guidelines for Financial Statement Analysis

The financial has to keep in mind the following guidelines

- Use ratios to get clues to ask the right question
- Be selective in the choice of ratio
- Employee proper bench marks
- Know the tricks used by the accountant and read the notes to the financial statement

Conclusion and suggestions

Tools and analysis discussed in this study are helpful in making financial decisions, evaluating performance and forecasting future developments. But in comprehensive business analysis we need to go beyond the conventional financial measures and should consider qualitative factors relevant for evaluating the financial performance of the company. It includes a check in company's key customers, key suppliers, its overseas business, competition, future prospects and legal and regulatory environment. Along with the audited financial statement annual report of the company provides a source for meaningful interpretation of financial status. Tata motors statutory reports includes Board's Report, Management discussion and analysis Report, Corporate governance Report and Business Responsibility Report which is very much helpful to have a qualitative interpretation of financial analysis.

Limitation of the study

The study is conducted on the basis of secondary data and it is done only with one Sample Company. So conclusion may not be considered cent percent accurate. To reach into a conclusion the further study with more sample size is highly essential.

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