

A Comparative Study On Financial Performance Analysis Of Tata Motors Ltd And Maruti Suzuki Ltd

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ABSTRACT

Financial ratio analysis is a crucial process for reviewing the financial position and forecasting the financial soundness and future growth of a company. This study aimed to analyze the financial performance of two leading Indian automotive manufacturers, Tata Motors Ltd and Maruti Suzuki Ltd, by calculating and interpreting various financial ratios.

The primary objective was to evaluate the performance of both companies over a five-year reference period, specifically from 2016 to 2021. Ratios calculated included the Current Ratio, Liquid Ratio, Debt-Equity Ratio, Interest Coverage Ratio, and Gross Profit Ratio. Furthermore, trend analysis and comparative income statements were examined.

Secondary data was exclusively collected from the annual reports of Tata Motors and Maruti Suzuki. The overall results indicated that while the companies performed reasonably well during the reference period, many financial standards for liquidity and solvency ratios were not met, particularly by Tata Motors, which struggled with debt coverage. Conversely, Maruti Suzuki demonstrated superior solvency and liquidity, leading to a conclusion of stronger overall fiscal well-being during the study period.

Introduction

Every business organization, regardless of whether it is manufacturing or service-oriented, requires finance to carry out its operations. The success of the business depends not only on possessing sufficient money but also on how effectively the management utilizes those funds to generate profits.

Financial performance analysis is the process of interpreting a firm's financial statements (e.g., Profit & Loss Account, Balance Sheet, Cash Flow Statement) to determine its financial operations and characteristics. It provides insight into the efficiency and performance of a firm's financial management. As a vital management tool, it is utilized by analysts, executives, and investors to evaluate the company's comprehensive position, offering in-depth analysis of liquidity, long-term solvency, financial viability, and profitability.

Ratio analysis, a key component of this process, is used to identify whether the firm is growing or deteriorating over past financial years. Analysts primarily focus on assessing short-term and long-term solvency, liquidity, profitability, and the efficiency of financial operations.

1.2. Industry and Company Profile

The Indian Automobile Industry is a significant and growing sector, ranked as the fifth largest in the world in 2020. It benefits from factors such as low-cost skilled labor, various research and development centers, and cheap steel production.

Tata Motors Ltd: Tata Motors, a flagship company of the Tata Group, is a multinational automotive manufacturing company. It entered the passenger vehicle market in 1988 with the launch of the Tata Mobile and achieved the capability of developing a competitive indigenous automobile with the Tata Sierra in 1997.

Maruti Suzuki Ltd: Formerly Maruti Udyog Limited, Maruti Suzuki India Limited is an Indian automobile manufacturer based in New Delhi. Founded in 1981, it was later sold to the Japanese automaker Suzuki Motor Corporation in 2019. As of February 2022, Maruti Suzuki held a substantial market share of 44.2 percent in the Indian passenger car market.

2. Literature Review

The financial performance of automotive companies, particularly in the Indian context, has been a frequent subject of study, focusing largely on their financial health and profitability using ratio analysis.

Studies on **Tata Motors** have highlighted concerns regarding debt and liquidity. Shaikh Salman Masood (2020) found abnormal amounts of debt and pointed out Tata Motors' lack of ability to meet contractual payments during the 2017-2019 period, noting that liquidity, as indicated by quick and current ratios, had decreased since 2017. Bhupender Kumar Som and Himanshu Goel (2020) reviewed the financial performance from 2016-2020 and concluded that the current ratio was a matter of concern for investors, indicating that Return on Capital Employed and Net Worth were at all-time lows. Similarly, MODI TANVIR R. and KHORAJIYA MAHMADARIFI (2014) observed a decline in profitability, with the net profit margin signifying a lower level of profitability despite high sales revenue.

In contrast, literature on **Maruti Suzuki** generally reflects a stronger and more stable financial position. Biswajit Rout, Abinash Dash, and Baisali Das (2020) concluded that Maruti Suzuki's prosperity was "wealthy" over the 2009-2019 period, showing a gradually increasing trend in Net Sales and Net Profits. Sudarshan Kumar (2020) noted that Maruti Suzuki has consistently stayed ahead of rivals due to continuous developments and mechanical upgrades, setting a benchmark of excellence through its Research and Development activities.

These previous studies establish a background for the current research, which seeks to compare and analyze the performance of both firms within a recent and consistent financial period (2016-2021).

Research Methodology

Objectives of the Study

Primary Objective:

To compare and analyze the financial performance of Tata Motors Ltd and Maruti Suzuki Ltd.

Secondary Objectives:

To evaluate the financial performance of Tata Motors Ltd and Maruti Suzuki Ltd using various financial ratios.

To examine the profitability, liquidity, leverage, and effective performances of both companies.

Scope and Period of the Study

The scope of the study is limited to a comparative financial analysis of Tata Motors Ltd and Maruti Suzuki Ltd. The period of the study covers **five financial years, from 2016 to 2021**.

Hypothesis of the Study

Based on the objectives of a comparative financial study, the following hypotheses are formulated:

- **H1 (Liquidity):** Maruti Suzuki Ltd maintains a superior liquidity position (Current Ratio and Liquid Ratio) compared to Tata Motors Ltd during the study period.
- **H2 (Solvency):** Maruti Suzuki Ltd possesses a significantly lower Debt-Equity Ratio, indicating a more solvent financial structure than Tata Motors Ltd.
- **H3 (Profitability):** Maruti Suzuki Ltd exhibits a higher Gross Profit Ratio and greater earning potential compared to Tata Motors Ltd.

Methods of Data Collection and Tools Used

Data Collection:

The study relied solely on secondary data. The data was collected from the annual reports of Tata Motors Ltd and Maruti Suzuki Ltd for the five-year period from 2016 to 2021.

Accounting Tools Used for the Study:

The following established techniques of financial statement analysis were used:

Ratio Analysis: Calculating ratios to assess liquidity, leverage, and profitability.

Trend Analysis: Calculating the trend of key financial variables (e.g., Sales, Current Assets, Current Liabilities, Share Capital) over the study period, taking the earliest year as the base.

Comparative Income Statement Analysis: Presenting income statements for different years side-by-side to allow for period-to-period comparison of incomes and expenses.

Questionnaire Design

As the study focused exclusively on **secondary data** derived from published financial statements, **no primary data collection tool, such as a questionnaire, was used** for this financial performance analysis. The analysis was based entirely on quantitative financial figures.

Data Analysis & Interpretation

Ratio Analysis (Summary)

Ratio	Standard Norm	Tata Motors (Study Period)	Maruti Suzuki (Study Period)	Finding
Current Ratio	2:1	Failed to meet the expected ratio in all years	Failed to meet the expected ratio in all years	Both companies had inadequate current assets.
Liquid Ratio (Quick Ratio)	1:1	Failed to meet the standard in all years	Failed to meet the standard in all years	Both companies failed to attain the standard quick ratio.
Cash Position Ratio	0.75:1	Highest was 0.45 (2017-2018)	Highest was 0.27 (2020-2021)	Neither company had a satisfactory cash ratio; Tata Motors performed better than Maruti Suzuki.
Debt-Equity Ratio	Less than 2:1 (Ideal < 0.5:1)	Least was 1.4 during the study period	Far less than 0.5:1 during all years	Maruti Suzuki is highly solvent with a highly satisfactory debt proportion. Tata Motors' ratio is higher.
Interest Coverage Ratio	Minimum 2	Met the standard only in FY 2016-2017 (2.93)	Highest was 138.92; met the standard in all years	Maruti Suzuki has a high possibility of paying off interest; Tata Motors failed to consistently meet the standard.
Gross Profit Ratio	N/A	Lowest gross profit	Highest was 18.7 (2016-2017); showed a constant but low decline	Maruti Suzuki's Gross Profit was consistently higher than Tata Motors.

Trend Analysis (Summary)

- Sales Trend:** The trend analysis of sales for Tata Motors was found to be declining compared to Maruti Suzuki.
- Current Assets Trend:** The current asset trend for Maruti Suzuki was fluctuating initially but reached a peak of ₹18,544.30 crores in 2020-2021. The current asset trend for Tata Motors was steadily declining.
- Current Liabilities Trend:** Tata Motors maintained a high but constant current liability throughout the period, peaking at ₹157,749.18 crores in 2020-2021, which was higher than Maruti Suzuki's figures.

Key Findings

The key findings from the ratio, trend, and comparative income statement analysis of Tata Motors Ltd and Maruti Suzuki Ltd are as follows:

Findings on Liquidity and Solvency

Liquidity Concerns: Both Tata Motors and Maruti Suzuki consistently failed to meet the standard Current Ratio (2:1) and Liquid Ratio (1:1) throughout the study period (2017-2021), indicating inadequate current assets to cover short-term liabilities.

Cash Position: Neither company met the satisfactory Cash Position Ratio of 0.75:1, but Tata Motors' highest cash ratio (0.45 in 2017-2018) was better than Maruti Suzuki's highest (0.27 in 2020-2021).

Debt Management (Maruti Suzuki): Maruti Suzuki's Debt-Equity Ratio was consistently far less than the ideal 0.5:1, which signifies a highly satisfactory debt proportion and high solvency to pay off its long-term debts.

Debt Management (Tata Motors): Tata Motors' debt-equity ratio was significantly higher, with a minimum ratio of 1.4 during the study period.

Interest Coverage: Maruti Suzuki consistently had the highest Interest Coverage Ratio, reaching 138.92, indicating a high possibility of paying off their interest. Tata Motors met the minimum standard ratio of 2 only once in the financial year 2016-2017 (2.93), failing in subsequent years.

Findings on Profitability and Growth

Gross Profit: Maruti Suzuki showed a higher Gross Profit Ratio than Tata Motors in all years, although Maruti's ratio showed a constant but low decline.

Sales and Assets: Maruti Suzuki's trend analysis showed fluctuating but ultimately increasing sales and current assets, while Tata Motors' sales and current assets trends were declining over the study period.

Expense Control: Both companies showed a decrease in overall expenses during the 2017-2021 period.

Annual Performance: In the financial year 2018-2019, Tata Motors showed high profits of 466.07%, while Maruti Suzuki had a loss of 2.88%. However, in 2020-2021, Maruti Suzuki had a loss of 25.83% due to decreased revenue, while Tata Motors showed a profit of 18.60% due to expenses being decreased more than the revenue.

CONCLUSION

The comparative financial performance analysis clearly indicates that **Maruti Suzuki Ltd holds a significantly stronger fiscal position and is more solvent than Tata Motors Ltd** during the study period of 2016-2021.

- **Maruti Suzuki** demonstrated strong solvency, achieving a highly satisfactory Debt-Equity Ratio and a high Interest Coverage Ratio, indicating its ability to easily meet its long-term debt obligations. Its Gross Profit and sales trends were also generally superior or more consistent than its competitor.
- **Tata Motors**, while showing some moments of strong profit growth, consistently failed to meet the qualified standards for nearly all key measuring ratios, including the Current Ratio, Quick Ratio, Cash Position Ratio, Debt-Equity Ratio, and Interest Coverage Ratio. Its trends in sales and current assets were found to be declining.

In conclusion, although both companies faced common challenges in meeting ideal liquidity standards, Maruti Suzuki's robust solvency and stronger profitability indicators confirm its better financial health and long-term viability during the study period.

Recommendations

Based on the findings of this financial analysis, the following recommendations are suggested for both companies:

Recommendations for Tata Motors Ltd

Increase Debt Coverage: Tata Motors must increase its Interest Coverage Ratio to ensure it can reliably pay off the interest on its outstanding debts, which currently falls below the minimum standard.

Improve Capital Structure: The company should increase its debt-equity ratio to better align with financial prudence and enhance its ability to pay off long-term debts.

Address Asset Decline: The company should investigate the reasons for the steady decline in its current assets and sales trends and implement strategies to reverse this trend.

Recommendations for Both Companies

Boost Current Assets: Both Tata Motors and Maruti Suzuki need to increase their current assets to consistently meet the fixed standard Current Ratio (2:1) and improve their overall working capital position.

Enhance Quick Ratio: Both companies must improve their Quick Ratio (Liquid Ratio) to 1:1, allowing them to pay off current debt obligations immediately without resorting to raising external debt.

Meet Cash Standards: The Cash Position Ratio must be brought closer to the 0.75:1 standard to ensure sufficient liquidity to meet short-term debt obligations.

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