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Profitability and Liquidity Analysis of TVS Motor Company Ltd.

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Abstract: ***Every business considers finance to be its lifeblood. No business, large, medium, or small, can be launched without adequate funding, no business, large, medium, or small, can be launched. Finance can be defined as the provision of money when it is needed. Finance is the management of money flows within an organization. It is concerned with the application of skills in money manipulation, use, and control. Financial performance analysis identifies the process of identifying a company's financial strengths and weaknesses by correctly establishing the connection between the balance sheet and the profit and loss account items. It also aids in short and long - term forecasting and growth can be identified using financial performance analysis. This study main focus on to analysis the financial aspects of the TVS Motors to understand the financial position through financial statement which shows all incomes and expenditure and assets and liabilities in the format of profit & loss and balance sheet. This research is analysed using various financial ratio analysis to know the profitability and liquidity for the period of 10 years from 2013 to 2022.***

Keywords: Financial Analysis, Financial Strength, Profitability Ratio, Liquidity Ratio

1. Introduction

Finance is the backbone of business; finance signifies money management and the process of obtaining funds. Financial analysis is an evaluation of a business's soundness, consistency, and profitability executed by professional people who prepare reports using ratios and other methods based on information from financial information and other reports. These reports are usually represented to top management as one of the foundations upon which business decisions are made.

Financial performance analysis includes the analysis and interpretation of the results in such a way that it undertakes a full assessment of the profitability and financial soundness of the business. The financial analysis tool provides a critical financial analysis methodology.

Many business owners and executives have discovered that examining financial statements can provide invaluable insight. Such knowledge can assist businesses in increasing their profitability, cash flow, and value of the firm. The balance sheet, the income statement, and the statement of cash flows are the three principal data sources for financial statement analysis.

2. Statement of the Problem

The efficiency of the business is measured by the amount of profit earned. Analysis and interpretation of the financial statement is regular exercise to review the performance of a company. It was purpose to conduct to study the short term prospects as well as the long term trends and to arrive at the conclusion on the performance of a company. The problem is to determine the financial ratio analysis and to earn sufficient profitability to manage the proper functioning of the companies. Every effort has been made to conclude relevantly and to suggest for the best performance.

3. Review of Literature

Profitability ratios can also be used to compare a company's performance to that of its competitors or the industry average. For example, a company with a higher return on assets than its competitors may be considered more efficient and financially healthy (Du, Gao& Chen, 2015). Additionally, profitability ratios can be used in conjunction with other financial metrics, such as liquidity ratios or solvency ratios, to gain a more comprehensive understanding of a company's financial position (Brigham & Houston, 2011). Liquidity ratio analysis is a useful tool for evaluating a company's ability to meet its short - term financial obligations, such as paying its bills and debts. By analyzing a company's current ratio, quick ratio, and cash ratio, investors and analysts can gain insight into the company's liquidity position and its ability to pay off its short - term debts (Jain &Kaur, 2016). For example, a high current ratio indicates that a company has a strong ability to pay off its short - term debts, while a low cash ratio suggests that the company may have difficulty meeting its most pressing financial obligations.

Additionally, liquidity ratios can be used to compare a company's performance to that of its competitors or the industry average (Jain &Kaur, 2016). Furthermore, research has shown that liquidity ratios can predict the likelihood of a company's bankruptcy or financial distress (Altman, 1968). The study reviews literature on profitability analysis of banks and found that return on assets (ROA) and return on equity (ROE) are the most commonly used profitability ratios in the banking industry. The study also identifies the impact of bank specific and macroeconomic factors on bank profitability (Naser, 2016).

4. Industry Profile

As of 2021, the global automotive industry is facing a number of challenges, including economic uncertainty, changing consumer preferences, and increasing regulatory pressure. One of the major challenges for the industry is the economic uncertainty caused by the ongoing COVID - 19 pandemic. The pandemic has led to a significant decline in consumer demand for automobiles, resulting in production and sales reductions for many companies. Additionally, supply chain disruptions and shutdowns have added to the challenges faced by the industry. Another major challenge for the industry is the changing consumer preferences, as more and more people are shifting towards electric vehicles (EVs) and other alternative - fuel vehicles. This trend is driven by concerns about climate change and the desire to reduce dependence on fossil fuels. In order to meet this demand, many companies are investing heavily in the development and production of EVs and other alternative - fuel vehicles. Regulatory pressure is also increasing for the industry, as governments around the world are implementing stricter emissions standards and fuel economy regulations. This is leading to increased costs for companies, as they need to develop and produce vehicles that meet these standards.

Despite these challenges, the industry is also seeing some positive developments. Many companies are investing in new technologies such as autonomous driving, connected cars, and advanced manufacturing, which has the potential to improve efficiency and reduce costs. Additionally, the increased demand for EVs and other alternative - fuel vehicles is creating new opportunities for companies that can successfully navigate this transition.

5. Company Profile

TVS Motor Company Limited is an Indian multinational motorcycle and scooter manufacturing company. It is the third largest player in the Indian two - wheeler market and is headquartered in Chennai, Tamil Nadu, India. The company was founded in 1978 and is a member of the TVS Group, a conglomerate of companies with interests in various industries such as automotive, engineering, electronics, and more. The company produces a wide range of two - wheelers including scooters, motorcycles, and mopeds. TVS Motor Company has a strong presence in the domestic market, with a wide range of products catering to various segments of the market. The company's product portfolio includes scooters such as the TVS Ntorq 125, Jupiter, and Scooty Pep+, and motorcycles such as the TVS Apache RTR 200 4V, Apache RTR 160 4V, and Apache RR 310. The company also exports its products to more than 60 countries worldwide.

The company is known for its focus on innovation and technology, and has several research and development centers in India and abroad. The company also has a strong emphasis on sustainability and has implemented several initiatives to reduce its environmental footprint. TVS Motor Company has a strong distribution network, with over 6, 000 dealerships and service centers across the country. The company also has a strong after - sales service network, which includes mobile service vans, and doorstep service. Overall, TVS Motor Company is a leading player in the Indian two - wheeler market and is known for its focus on innovation, technology, and sustainability. The company has a strong presence in the domestic market, and exports its products to several countries worldwide.

6. Objectives of the Study

- To measure the profitability of TVS motor company Ltd.
- To identify the liquidity position of the TVS motor company Ltd.
- To analyse the financial efficiency of the TVS motor company Ltd.

7. Research Methodology

Sampling Method
The methodology employed in this study is convenience sampling.

Sources of data
This research study is exclusively secondary in nature. The data used to compute various financial ratios is sourced from annual reports of the company.

Time Period
The research scope of this study encompasses a period of 10 years, from the fiscal year 2012 - 2013 to the fiscal year 2021 - 2022.

Tools Used for Analysis
The data for this study was analysed using statistical techniques such as Descriptive statistics and Ratio Analysis.

8. Analysis and Interpretation

Table 1

Analysis of Profitability ratios (%)					
Year	Operating margin	Net profit margin	Return on net worth	Return on total assets	Return on capital employed
Mar - 13	5.4	1.5	9.6	3.6	5.9
Mar - 14	5.5	2.7	18.1	7	12.5
Mar - 15	5.5	3.2	22.3	8.3	15
Mar - 16	6.9	4.1	28	10.4	18.3
Mar - 17	6.8	4.2	26.2	10.1	17.7
Mar - 18	7.6	4.2	25.4	9.8	17.5
Mar - 19	7.1	3.7	22.2	8.6	15.5
Mar - 20	7.1	3.8	18.4	7.1	12.2
Mar - 21	8.1	3.7	16.1	6.3	11.2
Mar - 22	8.2	4.4	20.7	8.3	15.3
Mean	6.82	3.55	20.7	7.95	14.11
STD. DEV.	0.990757	0.838153	5.165849	1.948974	3.580349
CV	0.145272	0.236099	0.249558	0.245154	0.253746

Source: Researcher own computation.

The table – 1 shows that the analysis of the profitability ratios for the period of 10 years. Operating profit margin and the Net profit margin are steadily increasing year on year but not at the satisfactory level. It is suggested that to increase the level of net profit margin ratio in the future. The return on net worth and the Return on total assets are at the satisfactory level. The Return on capital employed not at the satisfactory level. Standard deviation is always in positive position at level of Mean. Coefficient of variance is also in a satisfaction position of TVS motor company ltd.

Table 2

Analysis of Liquidity ratios (times)			
Year	Current ratio	Debt to equity ratio	Interest cover
Mar - 13	0.837	0.518	4.134
Mar - 14	0.828	0.373	16.701
Mar - 15	0.769	0.59	16.172
Mar - 16	0.6	0.482	13.915
Mar - 17	0.612	0.476	17.44
Mar - 18	0.547	0.426	16.647
Mar - 19	0.665	0.428	12.102
Mar - 20	0.631	0.596	7.853
Mar - 21	0.677	0.302	6.397
Mar - 22	0.534	0.408	10.911
Mean	0.67	0.4599	12.2272
STD. DEV.	0.103023	0.087702	4.533274
CV	0.153766	0.190699	0.370753

Source: Researcher own computation.

The table – 2 shows the analysis of the liquidity ratios for the period of 10 years. The current ratio and the debt to equity ratios are not at the satisfactory level. This indicates that it is the sign of financial weakness, as it suggests that the company may not have enough liquid assets to cover its short - term debts. It may indicate that the company is having difficulty paying its bills or that it is highly leveraged. However, it's important to note that the current ratio is just one metric and should be considered in the context of the company's overall financial health and industry norms. The interest coverage ratio is at the greatly satisfactory.

Table 3

Analysis of Efficiency ratios (times)			
Year	Total income / total assets	Sales /NFA exclreval	Total income / compensation to employees
Mar - 13	2.467	7.708	19.351
Mar - 14	2.564	8.104	18.316
Mar - 15	2.613	8.752	18.191
Mar - 16	2.531	7.931	18.693
Mar - 17	2.439	7.14	17.922
Mar - 18	2.368	7.13	17.989
Mar - 19	2.33	7.284	19.745
Mar - 20	1.847	5.927	17.533
Mar - 21	1.711	5.632	17.695
Mar - 22	1.875	6.494	18.31
Mean	2.2745	7.2102	18.3745
STD. DEV.	0.316230	0.927925	0.670651
CV	0.139033	0.128696	0.036499

Source: Researcher own computation

The table – 3 shows that the analysis of efficiency ratios for the period of 10 years. The total income to total assets and the sales to Net foreign asset exclusive revaluation ratios are not satisfactory in recent years from 2020 onwards. The total income to compensation to employee’s ratio is at the satisfactory level where as the coefficient of variation not significantly varies.

9. Conclusion

Financial ratios are essentially concerned with the identification of significant accounting data relationships, which give the decision into the financial performance of a company. The analysis of financial statements is a process of evaluating the relationship of component parts of financial statements to obtain a better understanding of the firm’s position and performance. Operating profit margin and the Net profit margin are steadily increasing year on year but not at the satisfactory level. It is suggested that to increase the level of net profit margin ratio in the future. The return on net worth and the Return on total assets are at the satisfactory level. The Return on capital employed not at the satisfactory level. Standard deviation is always in positive position at level of Mean. Coefficient of variance is also in a satisfaction position of TVS motor company ltd. The current ratio and the debt to equity ratios are not at the satisfactory level. This indicates that it is the sign of financial weakness, as it suggests that the company may not have enough liquid assets to cover its short - term debts. It may indicate that the company is having difficulty paying its bills or that it is highly leveraged. However, it's important to note that the current ratio is just one metric and should be considered in the context of the company's overall financial health and industry norms. The interest coverage ratio is at the greatly satisfactory. It is concluded that the TVS motor company limited should improve the financial passion of the company in the future.

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